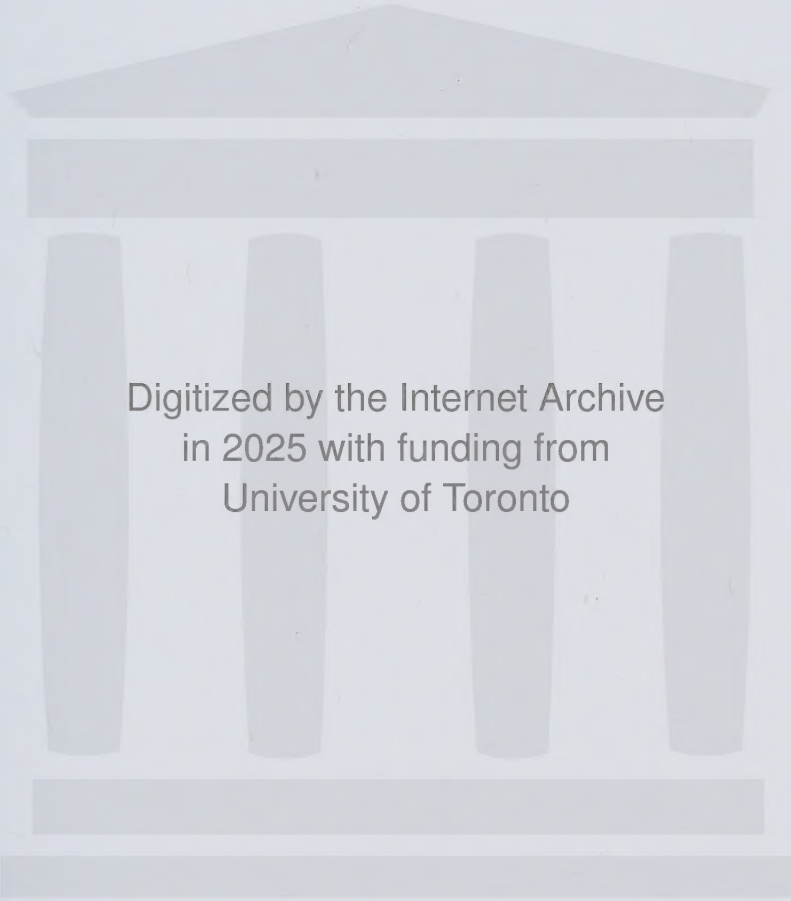




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2007–2008
104th Yearbook



*Her Majesty Queen Elizabeth II
Queen of Canada
wearing Her Canadian insignia
as Sovereign of the Order of Canada
and the Order of Military Merit*



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Royal York Hotel
100 Front Street West
Toronto, Ontario M5J 1E3
(416) 364-2878

ISBN 0-9734345-0-3

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The Empire Club of Canada

Published by
The Empire Club Foundation

Yearbook Chairman, Edward P. Badovinac

Photography by Leni Johnston

Typeset by Fine Impressions, Toronto, Ontario

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Catherine S. Swift
President, 2007-2008

THE EMPIRE CLUB OF CANADA

PRESIDENT'S FOREWORD

It was an honour and privilege to serve as President of the Empire Club of Canada over the past year.

The Club has a powerful tradition that now dates back over a century. Speakers do not regard addressing the Empire Club of Canada as just another speech, rather they regard it as Canada's, and perhaps the world's, longest-standing, continuously operational, speakers' forum of record. Though we are facing increased competition in recent years, in the past year the Club has continued to play a leadership role in providing a forum for the exchange of ideas and information that are important to Canadians.

As the world's pace seems to increase year on year, forums like ours, which provide a chance to think and reflect, where the audience has access to the live spoken word and can assess the credibility of the speaker, are paradoxically increasingly important.

This volume serves not only as a collection of the insight and wisdom of leaders from a variety of fields, but also as an overview of leading issues that impacted Canadian society throughout the year.

A special thanks goes out to all the volunteers at the Club who help make our luncheons special. Their dedica-

tion and loyalty to this venerable Toronto institution helps keep the Club unique.

I hope that those reading this volume will enjoy the content as much as I enjoyed hearing these speeches firsthand.

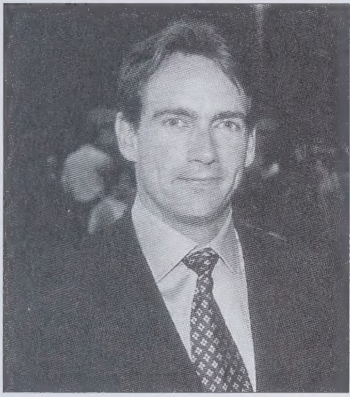
Catherine S. Swift
President, 2007–2008

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September 20, 2007

Pierre Karl Péladeau

President and CEO, Quebecor Inc.

A WIRELESS FUTURE FOR CANADA

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

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Introduction by Catherine Swift

The last few decades have seen enormous changes in so many parts of our economy, but the communications sector is one that has been among the most turbulent. Just three decades or so ago we had monopoly provision of telecommunications service in Canada, and you could have any colour of telephone you wanted, as long as it was black. As some competition was introduced in later years—still very much on a managed and tentative basis—we did see

improvements in quality, variety and cost of services and equipment, as well as the introduction of such fundamental elements as wireless and the Internet.

Over the last few years in particular, some of the activity we have seen in telecommunications, cable television, wireless and the Internet have been mind-boggling in the amount and the speed of change. Some of the traditional players in the industry, comfortable monopolies in years past, have faced serious difficulties. Others have merged or been taken over, and some have thrived.

It is challenging enough just to be an observer of these trends, let alone be a major player. What is clear is that it takes a certain type of person to thrive in this volatile sector, and we are lucky today to have such a person as our speaker to offer his insights into the future for this vital part of our economic infrastructure.

Pierre Karl Péladeau is the President and CEO of Quebecor World and its principal shareholder Quebecor Inc. He holds degrees in philosophy and law, and was called to the Québec bar in 1988. He is the son of the founder, Pierre Peladeau, and joined Quebecor's management team at an early age. He became President of Quebecor Communications in 1991, and later went on to develop Quebecor Printing Europe into Europe's largest printer.

In 1998, Mr. Péladeau spearheaded the acquisition of Sun Media Corporation, making Quebecor the second-largest newspaper chain in Canada. He became President and CEO of Quebecor Inc. in 1999, and in 2000 was responsible for the acquisition of Groupe Vidéotron, the largest cable TV operator in Québec, and TVA, the largest French-language broadcaster in Canada. In 2004, Mr. Péladeau assumed his current role at Quebecor World. He also sits on the Boards of several Quebecor companies, and is active in many charitable and cultural organizations including being President of the Board of the modern dance company La La La Human Steps.

In a very short time, Mr. Péladeau has assembled a truly formidable media and communications empire, and has tweaked the noses of a few other notables in the sector in the process. He is also viewed as perhaps the only industry leader who has actually made convergence work, something that others have tried unsuccessfully to achieve.

Please join me in welcoming Pierre Karl Péladeau.

Pierre Karl Péladeau

Ladies and gentlemen, members of the Empire Club, it's a great honour to be here where so many great Canadians

in history have come to speak. I am humbled by your kind invitation.

Catherine, thank you for the kind introduction.

From a podium of great history and tradition I want to talk about the future—a wireless future for Canada.

I have come here today with one of the most coveted new wireless products on earth—the new iPhone. With this iPhone you can watch a film, flip on your favourite TV show, browse the Web in amazing speed, find your way home on an interactive map, and buy a song along the way. You can actually do a lot more than that and it's really very cool.

It's a small taste of the true potential of the wireless future, but like you I have not had a chance to actually use an iPhone. It's not available in Canada. One million have already been sold south of the border.

Americans can pay about \$60 a month to use this iPhone. In Canada, this same phone will likely cost between \$260 and \$879 a month. In fact the National Post recently ran a story featuring a renowned expert in the field, who estimated it would cost \$900 a month to use all the functions of the iPhone in Canada. Under certain conditions, you might have to take out a new mortgage to pay for your new iPhone.

What about our own source of national pride—the BlackBerry? It's a beautiful work of art and I must admit my wife and I have become crackberry addicts. It's revolutionized my life and business in Canada. RIM has done an amazing job and the latest Pearl and 8800 series are simply magnificent. RIM is truly a symbol of Canadian genius.

Unfortunately, a lot of Canadians don't have access to the BlackBerry. Why? Because the data plans used to service the BlackBerry have simply priced it out of the market for a great number of Canadians.

The Chief Operating Officer of RIM believes that Canadian carriers could increase the number of

BlackBerries they sell each week by eight or nine times if they simply lowered their prices to the levels seen in such countries as Germany, France and Spain. Eight or nine times the current sales volume!

The very symbol of the Canadian wireless success is being denied to Canadians. That's a real shame but it does tell us something very concerning about the wireless industry in Canada, and that is the focus of my address today.

Ladies and gentlemen, the wireless market in Canada is dominated by three very large players that control the market.

The big three wireless players have a stranglehold on competition and your wallet. This stranglehold on competition leads not only to higher prices. It leads to fewer services and less innovation. Where Canada once led the world in wireless, we now lag behind.

Just like the monopoly on the old telephone, it is in the national interest to see this stranglehold come to an end. It is inevitable and in the best interests of consumers that we open up the wireless market, and allow for new choices, new competition, and lower prices.

I am encouraged that we are moving in the right direction. The new federal Minister of Industry Jim Prentice just announced yesterday that the government will move forward with the new 3G wireless auction. For those of you not in the business, 3G is the next generation of high-speed wireless. Mr. Prentice's announcement is a positive step in the right direction.

To truly appreciate why we need more competition let us consider the full implications of keeping the status quo alive with the big three. And let us consider how restricting the wireless market in Canada is also restricting the growth of new media in Canada.

Wireless is the future. It's the future of business, and we cannot afford to lag behind even further.

Lacking proper communications standards is impairing our national capacity to compete in the global world.

The measurement of this lag is straightforward: the penetration rate of wireless, the level of adoption of advanced wireless services—the 3G services—and the complexity of the plans for wireless. Whatever criteria you use, we are falling behind the United States, behind all the industrialized countries, and even behind some emerging economies.

How did Canada, a country that has been known for its performance in telecommunications, fall behind? Just as in any sector of the economy, a lack of adequate competition results in bigger profit margins, higher prices for consumers and lower-quality service. Individuals, businesses and the entire Canadian economy pay for this lack of competition in the wireless sector. For the moment, our consumers are lulled by an illusion that our wireless here costs less than in other areas, as long as it is used strictly for basic telephone service, without making too many long distance calls and by limiting the use of new services that are seen as luxuries.

I don't want to drown you in statistics, but this one illustration of the cost of wireless access to data illustrates the low level of innovation in Canadian wireless. More competition would quickly produce fair prices for consumers to make use of third-generation telephone services. Only the emergence of new competition would force the current players to demonstrate a bit of imagination to reduce the cost of accessing data.

It is fascinating to see what is happening in other industrialized countries. Not a week goes by without an announcement of new developments. Wireless is the technology of the moment. In France, U.K. and Japan, and in most countries whose policies encourage competition, an entire content industry is developing based on wireless.

Here in Canada, we are still waiting for the rules of the new spectrum auction.

In the U.S., the Federal Communications Commission (the FCC) is about to roll out an auction. Not the 3G we're waiting for, but the 4G—the Fourth Generation wireless. They are planning their second auction, all within one year, while we are still waiting for our first.

There is lots of interest on the part of Google, Yahoo, equipment manufacturers, technology companies and financial groups. They want to get into this market. They asked the American officials to set rules that will allow them to provide their expertise along with a higher level of competition. The next auctions in the U.S. will be conducted with the clearly stated objective of stimulating competition.

The Americans see the urgency—urgent because they are convinced that a more competitive environment will allow the American economy to take better advantage of the development of this new technology. The participation of new players will bring massive new investments in all the sectors that are involved, as well as in the technologies themselves. Instead, in Canada we are protecting the big three established players unchallenged by new competitors.

While the debate about the “hollowing out” of the Canadian economy is ongoing, I believe that protection for domestic companies will not produce a strong enough Canadian corporate structure that would slow the recent trend of selling out to foreign companies.

In the space of one year, the Americans conducted consultations, made decisions and announced the auction rules. A new spectrum auction in the U.S. will take place on January 28, 2008. In a marketplace that is already much more competitive than ours, they are encouraging the entrance of even more new players.

In Canada, we are still talking about whether our level of competition is sufficient with the big three wireless companies. A thousand and one reasons are cited to justify our lower penetration rates and our higher prices. If

you listen to the big three, they would actually say they are in favour of competition and that they favour an open and free market.

But Canada is not a free market; it is a highly protected market that favours the established players. The current wireless players enjoyed highly favourable start-up conditions. They had free access to spectrum and were able to focus their efforts on building their networks, their clientele, and their profitability.

The Canadian market would be considered free if it were open to foreign ownership, but I am led to believe a truly open market is simply not in the cards politically right now. Too many issues come to play.

So we find ourselves among Canadian providers, asking the federal government to set rules that best guarantee a higher level of wireless competition. The first rule has to be about access to spectrum. Having enough spectrum is a critical condition for a company to build a network to offer Third Generation services.

There are 105 MHz up for auction in Canada today. And it is clear that the members of the big three wireless companies don't need anymore spectrum to operate even with the new technology. However it's not hard to figure out it would be in their best interest to buy all the available spectrum, in order to shut out new competitors.

At any price? Probably not, but at a price that would not leave room for a new Canadian provider to prepare a credible business plan. I won't bore you with the views of the many economic experts who confirm what common sense would dictate. Spectrum is more valuable for a company that wants to block competition than for an operator who must invest heavily to establish that competition.

Without the right conditions, no new Canadian operator is able to buy spectrum at a price set by the current players, already well established and with enough resources to maintain their oligopoly.

Let me be very clear: This is in no way a proposal for favourable treatment and even less for a subsidy. We are simply asking the government to ensure that the wireless market will be stimulated by new competition. In the long run, the Canadian economy will be well served. Consumers will stop paying to sustain the big three, they will pay less and they will have access to more advanced services.

You can understand the efforts of the current operators to protect their market. Not all that long ago, the telephone monopolies came out with tons of expert opinion to demonstrate that the long-distance market should not be deregulated since the revenue financed basic local telephone service. This claim was shattered with the arrival of competition. Long-distance charges today are a fraction of what they were and, at Videotron, we are proud to say that we have slashed phone bills by 50 per cent and it was a first for consumers.

Watch how the arguments change. The champions of monopolies one day become the advocate of deregulation the next.

Monopolies carry great weight and in fact they spend millions of dollars to argue their case in Ottawa. If you could only see the statistics they generate it's mind-boggling.

I should say here that we, at Quebecor, know what we are talking about. When we acquired Videotron in 2000, the company had been a monopoly since the early '60s. On the other hand, Bell seems to be having more trouble adapting to the new environment and consequently, they lost more than 500,000 customers to its local telephony services.

We are now very proud to see Videotron, after a massive cultural change, at the forefront of creative telecom companies in Canada. We provide exceptional customer service, the best technology available, and the strongest Canadian broadcasting content.

Now let's talk about the future. I have stated clearly Quebecor's interest in building and operating a Third Generation wireless network. As a Canadian, I want to see more advanced wireless services and lower prices. I truly want to see strong wireless competition throughout Canada. It benefits us all.

We want to be a media leader throughout Canada. We want to integrate on every possible platform the creation, production and distribution of information content generated by the print media, video and music operations of our various subsidiaries.

We must look at wireless as a new avenue for distributing our Canadian media coverage. The present structure of the print media is challenged by the migration of the young generation to new distribution channels. Not responding to their need by providing the right technological channel will encourage them to choose other ways to get what they want outside Canada. How can we finance a solid news gathering machine if we can't reach the consumers where they are? This is why 3G is essential to the survival of a strong news-gathering infrastructure in this country.

More competition in wireless will be good for your business and all businesses in Canada. Like all of you, I need to have access to the most advanced services and I need customers who are encouraged by pricing to use their wireless for access to all sorts of content.

Establishing competition in the wireless area is a major Canadian project, a stimulating goal for our economy and a great opportunity for all businesses, particularly those in the media sector.

The current digital revolution is leading us directly into a multimedia world, where mobile access will be an increasingly attractive option. Wireless will compete directly with satellite, cable or telephone lines. Obviously, consumer pricing in Canada will have a big impact on the

potential for mobile systems to be used here, as they are in other places.

The experts are all forecasting that. Mobile access will enjoy the biggest growth of all the distribution systems in the years to come. With mobile, the two most popular services are, and will continue to be, information and video.

We are witnessing a profound revolution in the way we consume information. Never has content been so valuable, since content now is everywhere, on every platform, at any time. Traditional media have to adapt.

Quebecor is a key player in this universe. We are ranked among the top producers and distributors of content in Canada and therefore we find ourselves in the eye of the storm.

Take newspapers and magazines for example. We recently acquired the Osprey Publications. That makes us Canada's largest newspaper publisher in terms of readership. The dailies in the Quebecor media universe now have a combined Canada-wide readership of more than 6.4 million every week, putting us more than 1.6 million readers ahead of the nearest competition.

That acquisition brought us one step closer to the radical transformation in the way we produce information content. We are going to reinforce our print presence, as we develop a robust online presence. We will use multimedia techniques and deliver news and advertising content across multiple platforms.

Constant information, on screen at any time, is profoundly shaking up the venerable world of daily newspapers.

This evening's news is no longer news in the morning. Sports results come to us before we go to bed, and they're repeated when we wake. Free newspapers, easy to read, are multiplying and are available almost everywhere.

Every interest group today—whether it is financial, sports or social—has a Web site for news, information and entertainment.

To complete the picture, we can see that 15 to 29 year olds virtually do not read newspapers anymore. Looking at all of this, many experts are announcing the death of print. But that does not take into account their capacity to evolve and adapt to the current changes. That does not take into account what is most important—the value of content, the ability of journalists and production teams to track news, process it and make it available in new formats. That includes photos or videos, enriched with commentary and new facts, which are transmitted over the Internet or to mobile devices.

This is the way print media is transforming itself. It is becoming the backbone of Web sites, then subdividing into financial information, classifieds or home renovation. The news can be used by television, by 24-hour information sites, and in free morning newspapers.

Our news teams have to become multifunctional, able to use information to meet various needs. They have to adapt and we have to give them the means to do so.

I quote from a recent study from Harvard University: “Like the cosmos, the Internet is expanding. There are 300 million Web sites worldwide and the number is constantly increasing, creating heightened competition for people’s time and attention.”

Yes, there are hundreds of millions of sites. Competition is fierce but being there is the only option. In this highly competitive world, there is no formula other than to invest in quality, in originality and in relevance.

This is why we believe more than ever in convergence, in combining our forces for the production of content and also in the areas of sales and marketing.

Print media are perhaps the most obvious examples, but the same observations apply to music, video, films and television. Their universe too is multimedia.

At Quebecor, we produce content in each of these areas and we intend to apply convergence to all, so that our content is positioned strongly in the ultra-competitive world of the Internet and the new platforms.

Saul Berman, a leader at IBM, offered this assessment:

“But we are in Canada, in a country where regulation and control by the state and its entities are omnipresent. We still want to regulate the relationships between producers, broadcasters and others. We want to rely on quotas and multiple rules to give ourselves the illusion of protecting our identity.

“We want to maintain a tidy world where every action is predetermined, where the media have their own space and develop in isolation of other media in the new economy.

“This does not mesh with reality and this is not my vision. Canada has to throw off the regulatory yoke and give the private sector the chance to be entrepreneurial. By restricting access to new media, we are condemning traditional media to mediocrity and decline.”

It is with this vision in mind that I ask the federal government to stimulate competition in the wireless world. It's time to end the big three wireless companies from holding businesses and Canadians hostage, by putting their profit margins ahead of competition.

In the same spirit of entrepreneurs who have made Canada great, I would like to contribute to the development of the uniquely Canadian wireless era. I will invest the necessary funds and I am determined to offer Canadians the very best services for the very best price. Canadians deserve better than the current protected market. Let the new low-cost competitive wireless future begin.

Thank you.

The appreciation of the meeting was expressed by Jo-Ann McArthur, President, Jo-Ann McArthur Strategies Inc., and First Vice-President and President Elect, The Empire Club of Canada.



September 25, 2007

The Hon. Ed Stelmach

Premier, Province of Alberta

ALBERTA—CANADA'S ENGINE OF GROWTH

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Stephen Hewitt, Manager, Corporate Communications, Corporate and Public Affairs, TD Bank Financial Group, and Director, The Empire Club of Canada; Paula Sanderson, Grade 11 Student, North Toronto Collegiate Institute; Reverend Michael Clarke, OC, Associate Priest, Christ Church, Brampton; Robert B. Bell, Managing Partner (Toronto), Borden Ladner Gervais LLP; Jim Jaques, Senior Vice-President, National Sales and General Manager of Western Canada Bell Canada; Brian Shaw, Chairman and CEO, CIBC World Markets; Lisa A. Baiton, Vice-President, Government Relations, Environics Communications Inc., and Second Vice-President, The Empire Club of Canada; Helen Reeves, Senior Vice-President, Corporate Communications, MTS Allstream Inc.; Mike Crawley, President and CEO, AIM Power Generation; and Honorary Colonel Stanley Milner, South Alberta Lighthorse Regiment.

Introduction by Catherine Swift

Alberta has certainly seen some roller coaster rides in its economy over the last few decades, with its dramatic history of boom-and-

bust cycles. I recall the infamous bumper sticker of the mid-1980s bust, which said something along the lines of "God, please give us \$40 a barrel oil again and I promise I won't waste it all this time." Who would have dreamt that we would see \$80-plus barrel oil 20-odd years later? And given the stresses that come with the rapid growth that Alberta has experienced over the last few years with almost an excess of good fortune, sometimes you have to be careful of what you wish for.

Our speaker today, Alberta's new premier, is presiding over a province that has probably never in its history had as much influence on the national agenda as it does today. With an Alberta-based prime minister, being the wealthiest and only debt-free province, continuing to attract workers from across the country and being the holder of the resource that has contributed to a spectacular increase in the value of our dollar, Alberta's influence can be seen in all parts of our economy and public policy.

With great wealth and influence comes great responsibility. Whether it is the level of public spending, civil service salaries and benefits, or as we have recently experienced here in Toronto, responding to mayors' requests for more taxing powers, Alberta's decisions can affect us all.

There's an old story about politics having a different character depending on what part of the country you are in. In Atlantic Canada, politics is almost a way of life, in Québec, it's kind of like a religion, in Ontario, it's very businesslike, in Alberta and the Prairies it's very grassroots, and in B.C., it's entertainment! Our speaker today certainly fulfills the grassroots part of the equation as he has run the family farm since the 1970s and continues to live there.

The Honourable Ed Stelmach has a long record of public and community service, having been a school trustee, chair of the Vegreville Health Unit board and member of the Archer Memorial Hospital and Lamont Auxiliary Hospital and Nursing Home boards. In 1993, inspired by Ralph Klein, Mr. Stelmach entered provincial politics and was elected MLA in the Vegreville-Viking constituency. He has held four cabinet posts, including Minister of Agriculture, Minister of Infrastructure, Minister of Transportation and Minister of International and Intergovernmental Relations. He stepped down from his ministerial duties in March 2006 to run for the Progressive Conservative Party leadership.

He is the first Alberta premier of Ukrainian ancestry, and the first baby boomer to run the province. Please join me in welcoming Premier Stelmach.

Ed Stelmach

Thank you very much.

I was particularly happy the Empire Club extended this invitation, because it gives me the opportunity to talk about something that's very dear to my heart. Something I believe all Canadians need to hear about. And that's Alberta's contribution to this great country of ours.

Much has been said and written about my province's current growth spurt. And it's certainly impressive—outpacing the most recent predictions.

At the beginning of Alberta's second century, we find ourselves facing unprecedented global demand for our resources. The world is beating a path to our door. Above all, Alberta provides energy security to Canadians and is recognized as a safe and stable supplier of energy to North America.

As a result, today's Albertans have the ability to build a future where prosperity goes hand in hand with opportunity, a world-class quality of life and deep respect for the environment we've inherited.

Now, there are those who seem to believe prosperity is a finite thing with only so much to go around. If Alberta's doing well, it must be at the expense of somebody else.

In fact, over recent years Canada has been doing remarkably well, and Alberta has played a central role in that, because Alberta's boom is Canada's boom. Or as federal Finance Minister Jim Flaherty put it recently: "Alberta's prosperity is 'good news for Albertans and good news for all Canadians.'"

The taxes that flow from Alberta fund health care and other programs across Canada. Alberta's economy drives demand for goods and services, creating jobs from British Columbia to Newfoundland. And Alberta-based research—medical, environmental, and more recently nanotechnology—is helping to expand and diversify the

national economy and enhance the quality of life of all Canadians.

And as I pointed out to my fellow premiers at our recent meeting in Moncton, while others talk about what they're going to do for the environment, Albertans are taking action. We're leaders in developing green technologies and practices to ensure long-term environmental sustainability. That always surprises people, but more on that later.

First I want to talk about the specifics of Alberta's huge contribution to the well-being of this great country.

With 10 per cent of Canada's population, Alberta contributes about 20 per cent of federal tax revenues. In 2004, the last year for which we have complete numbers, Albertans contributed a net \$8.8 billion to the Government of Canada. That's by far the highest per-capita contribution of any Canadians.

So it's clear that Alberta pulls its weight in Canada and we do share our wealth. When it comes to supporting Canadian prosperity, the facts show Alberta punches far above its weight. And our contribution is set for a significant increase.

The energy sector has already committed over \$40 billion to developing and upgrading Alberta's oilsands. And over the coming years that's expected to grow to \$110 billion or more.

There are almost 1,000 construction projects proposed or recently completed in my province—worth a staggering \$182 billion! That huge investment will have a profound impact on Alberta and also on Canada.

As the Canadian Energy Research Institute has reported, a lot of those dollars will be spent in the rest of Canada on equipment, supplies, and specialized labour. In fact about half of the goods and services for Alberta's energy sector are already sourced in other parts of Canada.

And between 1999 and 2005 the value of goods imported into Alberta from the rest of Canada increased by 36 per cent, to more than \$41 billion annually.

Big numbers. But let me give you some examples of what this means to businesses and working people in other provinces.

A Tilbury, Ontario, company sells environmentally friendly utility poles for use in Alberta, and has increased its staff by 127 people to meet increased demand.

Charlottetown Metal Products is involved with a Red Deer company in supplying steel tanks for our emerging biofuel industry.

And since 2005, Nova Scotia's Mulgrave Metal Works has done about half their business with Alberta.

The list goes on.

But you get the picture. The economic impact of Alberta's growth is being felt nationwide. And it's not just the economy that benefits from that growth.

The investments Alberta is making in medical research have led to advancements in treating heart disease, cancer, Alzheimer's, childhood blindness, and diabetes. These are innovations that improve the quality of life of all Canadians, and provide hope to people around the world.

If it sounds like I'm proud of my province—I am. Deeply proud. Proud of our dynamic economy, but also of our accomplishments in research, entertainment, and the arts.

I'm determined that Alberta's story—a growing part of Canada's story—should be fully understood. Part of that story—a very important part—is the progress we are making towards preserving our environment for future generations. Because even in the midst of a boom—particularly in the midst of a boom—we must never lose sight of the fact that quality of life is more than dollars and cents.

Albertans place a high value on clear air, clean water, and pristine open spaces. They are our heritage—and they are not for sale at any price!

We are committed to safeguarding Alberta's environment. And to achieve that goal Alberta is forging a sound and practical environmental vision—working with industry to find creative, innovative solutions. We're focused on results rather than rhetoric.

Many of you may not know that we've introduced Canada's first legislated targets for greenhouse gas emissions by large industrial emitters.

We're creating a comprehensive provincial water strategy, and producing a Land-Use Framework that will help balance the competing demands on Alberta's landscape.

So while others argue about climate change, Albertans are acting.

The Alberta Research Council is pioneering a gas recovery process that allows carbon dioxide to be stored in undeveloped coal deposits.

Two of Alberta's major power companies have developed Canada's most advanced coal-fired generator using less coal to produce more power, with lower emissions.

Shell Canada is using new technology that reduces greenhouse gases by 40,000 tonnes a year.

Suncor Energy Inc. is recycling 90 per cent of the water it uses in the oilsands extraction process.

And you might be surprised to learn that Canada's oil-and-gas province is also Canada's number-one producer of wind power. I'm particularly proud that 90 per cent of the power used in Alberta's government buildings comes from wind power and from biomass generated from material such as wood waste.

Clearly, Alberta isn't dragging its feet on environmental issues. Alberta's leading the way. So I have little patience with those who occasionally suggest Albertans don't care about the environment.

We take seriously our responsibility to ourselves, to Canada, and to future generations. And that includes Alberta's energy sector. Our energy companies recognize that environmental concerns are real, and government and industry must work together to encourage practical measures to reduce our impact on the natural world.

But it would be foolish to underestimate the challenge that involves.

Most forecasts suggest that by 2030 the world will be consuming 50 per cent more energy than today, primarily due to the growth in developing economies.

Canadians can, and should, reduce our individual energy demands, but globally those demands will inevitably grow, and we need to harness technology and innovation to lessen the impact.

Short-sighted policies that either undermine Alberta's growth or punish Alberta for having resources the world wants would do great harm. Not just to our provincial economy but to the prosperity and well-being of Canadians.

Albertans are happy to see their fellow Canadians benefit from the development of our resources, but we want no part of schemes that would have Albertans pay for somebody else's license to pollute. It's important that—as a province and as a nation—we strike the right balance between developing our energy resources and protecting the environment. Because those resources will underwrite Canada's prosperity for decades to come.

At a production level of four million barrels a day, Alberta's oilsands can generate wealth for over a century.

We also have a 1,000-year supply of coal, which as a result of technology and innovation may become tomorrow's fuel—as a source of hydrogen and synthetic natural gas.

So Alberta's growth will continue—perhaps not at the present blistering pace, but over a very significant period of time.

Of course, that growth underscores all public policy in my province and presents my government with considerable challenges. But we have a solid plan to meet those challenges.

We will continue to provide Albertans with the fiscal management that's been the hallmark of Progressive Conservative governments and which has produced the only debt-free jurisdiction on the continent!

We will get a fair economic rent on the development of our resources. In fact we have recently received the recommendations of the Royalty Review Panel that I established as one of my first acts as premier and we'll be making a decision on those recommendations within weeks. I've promised Albertans a royalty regime that is fair to the companies who are investing billions of dollars to develop Alberta's resources. We will provide the stability and predictability business needs.

But these are not government's resources. They are not industry's resources. They are the inheritance of all Albertans—the key to my province's future—and I must be guided by that.

I understand this is a decision that will impact Alberta for years to come—and we will make a decision that is fair, realistic, and that recognizes the need for long-term competitiveness. For Alberta, this is a unique moment in our history. We have the opportunity to diversify and broaden our economy through adding value to our exports, and commercializing our technological developments, with the ultimate goal of making our economy more resilient to the boom-and-bust cycle. That's going to take hard work, innovation, and determination, but that's what today's Alberta is all about.

I'm confident we can build an economy that will lead Canada through the 21st century and beyond. Because, make no mistake, Alberta's positive contribution to national prosperity, and its role in building a strong,

united Canada, is critical to the future of our country. I welcome that challenge.

As a province with enormous economic impact on the whole country, Alberta should have influence on the national agenda.

As the engine of Canada's economy, Alberta offers a bold and confident perspective on the future. For example, we're championing the cause of free trade within Canada, because internal trade barriers reduce our competitiveness and pick the pockets of ordinary Canadians. They're a hold-over from the 19th century, and have no place in the 21st. Governments need to stop talking about internal free trade, and start implementing it. And in Alberta we're doing just that.

As I'm sure many of you know, Alberta has entered into a landmark agreement with British Columbia—the Trade Investment and Labour Mobility Agreement, TILMA—to remove barriers between our two provinces. The agreement creates the second-largest economic market in Canada. It will build on the prosperity in both provinces by giving businesses and workers seamless access to a larger range of opportunities. Frankly, TILMA should be a template for free trade within Canada. All it takes is political will.

Like most provinces, we have agreed to a passport system of securities regulation. And I want to make my position on that very clear.

Oil and gas development and exploration is a dynamic and high-risk business. In Alberta literally hundreds of companies—many of them highly specialized—have created a highly efficient oil and gas market.

As a result, Calgary is emerging as a financial centre for capital allocation. Alberta's securities regulator oversees this growing market in an efficient and responsive way. So it is not in Alberta's interest to relinquish our constitutional jurisdiction over local securities regulation.

We have a solution. The passport system is a model provinces can quickly implement to create a national system so let's accept the passport and move on to other matters.

For Canada these are exciting times, challenging times. For the first time in a generation our dollar is at par with the American dollar, and oil hovers at around \$80 a barrel.

Our ability to compete—to keep the markets we have and develop new ones—will be tested.

But I have to tell you that I'm full of confidence for the future of my country and my province. We've faced great challenges before and overcome them, because as a nation we have strength, resilience, and the will to succeed.

As a new premier, I'm confident we have the right policies—the right plan—to make great things happen in today's Alberta.

For Alberta and for Canada, I believe the future looks bright. Alberta's energy—from our people and from our resources—has the potential to fuel the way to a bright and prosperous future for all Canadians.

Thank you for giving me the opportunity today to tell our story.

The appreciation of the meeting was expressed by Lisa A. Baiton, Vice-President, Government Relations, Environics Communications Inc., and Second Vice-President, The Empire Club of Canada.



September 27, 2007

A joint meeting of The
Empire Club of Canada and
the Canadian Club of
Toronto

John Tory

Leader of the Ontario PC Party

THE ONTARIO WE HAVE AND THE ONTARIO WE DESERVE

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Jaime Watt, Principal, Navigator Limited, and Director, The Canadian Club of Toronto; Akanksha Ganguly, Grade 12 Student, Marc Garneau Collegiate Institute; Grant Kerr, Associate Pastor, St. Paul's United Church, Brampton; Andy Pringle, Ontario PC Candidate, Etobicoke Centre; Lisa A. Baiton, Vice-President, Government Relations, Environics Communications Inc., and Second Vice-President, The Empire Club of Canada; Rick Byers, Ontario PC Party Candidate, Oakville; Renato Discenza, Senior Vice-President, Enterprise Sales and Executive Sponsor for Ontario, Bell Canada; and Allan P. O'Dette, Director, External Relations and Public Affairs, GlaxoSmithKline Inc., and President, The Canadian Club of Toronto.

Introduction by Catherine Swift

It has been said that although you can fool all of the people some of the time, and some of the people all of the time, all that is needed in politics is to fool most of the people once every four years or so.

All elections are important, but I would argue that this upcoming Ontario election is especially important, and not only because

Ontarians will be asked to vote on a referendum question that could drastically change Ontario's electoral system.

It used to go without saying in Canada that Ontario was the economic engine of the country, but this role is far from certain today. Although we are still hanging on to a fairly decent economy, many threats loom on the horizon. Our high dollar looks like it is going to be with us for a while, and it is hammering our important manufacturing sector among others. Input costs for everything from fossil fuels, electricity, and commodities are very high and show no signs of letting up anytime soon.

Labour shortages are growing and given our demographics will likely worsen in the future. International competition is fierce with the robust growth in China and India. And we all know of the problems with our vital health-care system, that to date most political leaders continue to pretend is sustainable in its current form, when all factual information indicates the opposite. These conditions are not unique to Ontario, but they are especially acute here.

For all of these reasons, this upcoming election is pivotal and I hope Ontarians will think long and hard before making their choices.

We are very fortunate today to have with us the current leader of the Official Opposition, John Tory. John has had a storied career to date, and he's still pretty young! After graduating from law school in 1978, John's early career years were spent practising law in Toronto. He served for four years as Principal Secretary to former Ontario Premier Bill Davis, from whom he learned many lessons about public policy, leadership and community service.

He then embarked upon a successful career as a CEO—first with Rogers Media and then Rogers Cable. Throughout his career, John has been heavily involved as a volunteer for many charitable causes. As the 2001 volunteer Chair for the United Way of Greater Toronto, he spearheaded community fundraising drives that set a new record for money raised to help the homeless and less fortunate. John was also active as a volunteer with other organizations such as St. Michael's Hospital and the Salvation Army. He was honoured in 2002 as Volunteer Fundraiser of the Year.

An avid sports fan, he was a volunteer Chairman of the Canadian Football League for nine years, including four as League Commissioner.

He was first elected as an MPP in a by-election and became leader of the Ontario Progressive Conservative Party in 2004. Please join me in welcoming John Tory.

John Tory

Presidents Catherine and Allan, head table guests, ladies and gentlemen:

Catherine, may I thank you very much for those very kind words of introduction. I will confess right from the beginning I was having one of those contact lens moments before I came into this room. Those of you who have worn contact lenses understand. As a result I went into the bathroom to try to fix them. I don't have them in, so I have no idea whether there's anybody here or who you are if you are here.

However, because I checked in advance, I do know that my wife Barbara Hackett is here. She has been out on the campaign trail with me. I have been trying to convince her that going around in a bus is like a second honeymoon. I was having some success when I got to Niagara Falls the other day, as it is the honeymoon capital of the world, but things went downhill when I told her last Thursday we were spending the night with Dalton and Howard but never mind.

I also know that my father is here and I am delighted he is. I know my sister is here and my sister Jennifer is a bigwig at the Royal Bank and I want to tell you a story about that. This is an absolutely true story. A few weeks before the election started I went to a bank branch in Scarborough and the machine wasn't working but it was a Saturday and the branch was open and all I wanted to do was deposit a cheque. I went into the bank branch and asked if I could deposit the cheque and was asked for several pieces of identification. That was not very good for my political self-esteem; I was a man about to contest an election. I kept producing one piece of ID after another and finally the teller looked at them and said, "Oh by any chance would you be related to Jennifer Tory?" I said, "Yes she is my sister." And she said, "Well anything you like. What would you like to do?" So you just carry on. In

any event I'm very proud of her and the success that she has had.

What I'd like to talk to you about today, and I very much appreciate the invitation of these two clubs that asked me to speak and your attending this lunch today, is the Ontario we have and the Ontario that we deserve. The gap between the two in my view is a leadership gap and I want to share some thoughts with you as to how we can close that gap, because closing that gap I think will require leadership that both listens and acts. Leadership that is prepared to face tough issues and make difficult choices. Leadership totally committed to the success of enterprise and equally committed to the need for social progress.

Now the Ontario I know, and Catherine made mention of this, is the manufacturing heartland of Canada. It is also part of Canada's breadbasket and whether you are talking about livestock or produce or the wine industry our farmers have always put Ontario on the map. Ontario's greatest resource has always been its educated and hard-working people. Toronto is the centre of Canada's financial-services industry. We are one of the most culturally diverse places in the world and the home of many of Canada's most popular tourist attractions. There is no reason why Ontario should not be a leader in Canada and around the world. And if we see our position slipping as we do today we should take a close look at why, because something is obviously standing in our way. That something is weak leadership.

Despite all of the advantages that make Ontario great, despite our incredible promise, there are troubling signs for the Ontario economy today. One hundred and forty thousand people have lost manufacturing jobs since January of 2005. Ontario's economic growth for 2007 is projected by the Bank of Nova Scotia to be dead last in the entire country. Earlier this year Ontario's unemployment rate actually exceeded the national average for the

first time in 30 years. That's right—30 years. But statistics are just numbers. A politician can easily stand up and pull out this study or that statistic to hide behind. Numbers don't tell you everything. Behind every number there are real people and real businesses. I have been to every corner of the province. Let me tell you about the Ontario that I see.

The city of Cornwall has had some very difficult times in recent years. It made national headlines when the local Domtar plant closed and 910 people lost their jobs. These are talented trained workers, who were the source of Ontario's economic strength for so many years. Now when you meet them, as I have done on a number of occasions, many will tell you that they have actually found new jobs and they will tell you those jobs pay about half what they made before and that their families are struggling. Meeting them I saw what the human face of being dead last in economic growth really looks like.

I met the owner of a small manufacturing company in Timmins recently. He told me that in one month he'd had five visits from different inspectors and officials from the Ontario government. Worse still, some of the inspectors and regulators who visited him actually gave him contrary advice. I'm sure there are some people in this room who have had that experience. That month he said he spent more time dealing with government officials than he did trying to strengthen his business. This is a man with the energy and the talent and the desire to expand his business and to create jobs in that community but he can't. That's not right.

I've had these kinds of conversations far too many times, but the story that perhaps best illustrates how we could do better, much, much better, comes from Ontario's new diamond mining industry. In Ontario we are so fortunate to have tremendous natural resources as well as the talented people to turn those resources into jobs and

wealth, but it takes leadership to turn this potential into reality.

Now Dalton McGuinty was quick to attend the photo-op at the groundbreaking for Ontario's first-ever diamond mine. It promises hundreds of new jobs including many for Aboriginal people and billions in new investment, literally billions of dollars in new investment, in a part of northern Ontario that has struggled. Mr. McGuinty stood at that ceremony and said that Ontario's competitive taxes on diamond mining helped attract that multi-billion-dollar investment with those hundreds of jobs. And then just weeks later, Mr. McGuinty's finance minister stood in the legislature and more than doubled those same taxes in his budget. One leader in the diamond industry warned us that Ontario's first diamond mine might well end up being its last. Another said in news stories carried internationally that it was the kind of treatment that you would expect from a third-world country. Ontario deserves a higher standard of leadership than that and our economic future requires a higher standard of leadership than that. We simply must stop treating businesses as adversaries to be held in suspicion.

This province is full of smart, hardworking, innovative people with the potential to power an economy that is second to none. They need a government that is their reliable consistent partner and their booster, not a roadblock. But under the current government, taxes and regulations have continued to change often in secret, usually without notice or consultation, and the assumption is that people will just get over it.

I will change the way government creates rules and regulations and will reduce the overall burden of regulations by 25 per cent, at least 25 per cent. It has been done in the province of British Columbia and it will be done here under a new Progressive Conservative government. We cannot take for granted the strength of the financial-services industry that creates so many jobs in Toronto.

We cannot simply drift and hope for the best. I will lead a national push for a common securities regulator so that Canada can strengthen its position as an international financial centre. It is time for real leadership and real action for this industry by the province, namely this one, that should be leading in all of Canada.

We will make long-term investments in our tourism and cultural sectors so that the number of people employed in these industries will continue to grow. I will not give up on the United States market, as the current government seems to have done.

Now Dalton McGuinty promised not to raise taxes only to break that promise in his first budget. That broken promise had consequences for working families and for Ontario itself as a place to invest and to create jobs. I will reduce the overall tax burden. Upon taking office we will move immediately to repeal the so-called health tax and return that money to the hardworking people who have earned it. We will start with those who need help the most by eliminating that tax on January 1, 2008 for people earning under \$30,000 per year, those who can afford it least of all. The tax was created in a way that punished lower-income people, made them pay a higher rate of tax than other income brackets, and that is something that will be corrected first because it was wrong to begin with. The tax was wrong because it was a broken-promise tax. The way it was done was wrong because it was regressive. I will cap residential property assessment increases at 5 per cent per year. I will reduce business education taxes and we will eliminate the capital tax to encourage investment and to grow the economy.

Ontario has the people and the resources to be a leader in economic growth and job creation. We should be second to none, but when it comes to ensuring Ontario has the prosperity it needs, there is a big gap between the Ontario that we have and the Ontario that

we deserve. If we are going to close this gap we need new leadership.

Now there is a very powerful reason why we need to close this gap and, yes, it is about investment and it is about jobs, but there is something even more important at stake and that is that a prosperous economy gives us the resources to help those in need. When the economy grows, government revenues grow with it. When government revenues grow, we can invest more in health and education and helping the disadvantaged. I've seen remarkable compassion when I talk to people all across Ontario, but we have to do more, much, much more than we are doing to turn that compassion into action.

We need new leadership in this province in order to ensure that each tax dollar is spent responsibly. We must put an end to the kind of waste and mismanagement, which has become embedded in the culture of government especially these past four years. I will put my business experience to work dramatically increasing accountability, spending smarter and ending practices like the irresponsible year-end spending with so-called extra money. I have never heard of this concept of extra money. It is going to come to an end: that sort of irresponsible practice of rushing money out the door without accountability because it is just plain wrong.

Our health-care system is a blessing that is too easy to take for granted. Our universal publicly funded health-care system carries with it a promise. No matter where you live or what you can afford, when you or someone you love falls ill, our health-care system will be there for you. But when government does not manage health care properly, the gap between the promise of our health-care system and the reality of our health-care system only grows. Right now in Ontario one million adults and 130,000 children cannot find a family doctor. Many of these people are seniors, many of them are newer Canadians. One million of our fellow Ontario citizens can-

not find a family doctor. And yet once again it is not really the numbers that tell the whole story.

Let me tell you again about the Ontario that I see when I travel. You may have seen me make reference in the debate to a woman from Coburg. She has been advertising in the local newspaper for a family doctor. What I didn't say during the broadcast of the debate is that she is 91 years old.

Two women I met in London about 10 days ago, one a young mum and another a senior citizen, told me about filling out application forms for family doctors and then being told when they submitted those application forms that they were going into files with thousands of other forms and that those two women among all the thousands of other people shouldn't expect to hear back. Application forms for a family doctor. We simply must do better than that.

Our government when elected will invest 400 million new dollars every year by the end of our mandate to recruit and retain more doctors and nurses. We will use that money to help defer debt repayment for graduating medical students who stay and practice here in the province of Ontario. We will provide flexible retirement arrangements for older doctors and we will encourage the recruitment back home to the province of Ontario the more than 9,000 Canadian-trained doctors now practising in the United States. I will go to the United States to persuade them personally because that's what a leader should do. Quite frankly I can't think of a better use of a premier's time.

I will open up our health-care system to partnerships with the private sector in areas where they can provide quality service at a competitive cost to the taxpayer all under the single-payer system where you never need to pay with anything other than your OHIP card. My priority, let me very clear about this, is on getting care for patients. I will not let political posturing get in the way of

getting people off waiting lists and out of pain. If it's quality care and you need only present your health card, I will welcome those entrepreneurs who will provide that care and accept that card that we all carry in our pockets together.

Let me tell you something else that makes me very proud of being an Ontarian. We have got a very important balance right. We built a society based on the fundamental principles of equal justice, common standards and the rule of law, and yet at the same time within those common standards we became the world's most multicultural nation serving as a testament to the Canadian commitment to diversity.

Supporting inclusion and fairness for minorities didn't happen by chance. It happened because we are a tolerant, inclusive people and because we had leaders committed to social progress. Whether it was the Charter of Rights and Freedoms or funding for catholic schools, there was always a debate, there was always a little worry, but these things are part of our society today and we are the better for it. Now I know that my position in including all faiths, not just one, in the public system has prompted plenty of debate and that's fair. For me this is a fundamental issue of fairness. There are two viable positions. Fund all faiths or fund none. I have chosen inclusion, as I will always do.

Now Ontario is known as a peaceful and civil society where despite there always being more work to do we have made steady progress in ensuring that the benefits of our prosperity are shared. I've long believed that we have to do more to help those who are disadvantaged in our society. Catherine mentioned some of the work that I was privileged to do as a private citizen. Whether it is the quality of housing or access to community services or availability of job opportunities, I believe there is still a gap between the haves and the have-nots in our province and our platform makes firm commitments to addressing

it. I said at the Board of Trade two weeks ago that we simply must decide that we are going to revitalize the far too numerous disadvantaged communities that we have allowed to grow in our major cities. This means addressing physical infrastructure like housing and community facilities. The state that these are in today should be a source of embarrassment. But it also means addressing the human condition. Far too many of our fellow citizens, many of them newer Canadians, aren't getting the support they need so that they can make their contribution. Make no mistake. They want to contribute. They are able to contribute and they are not asking for a handout. They are simply asking for a hand-up, a mentorship, a homework club for their kids, or an English course for themselves. I will lead and I will get results for these fellow citizens of ours because it is right and because it is what a real leader should do.

In many neighbourhoods, isolations and breakdowns in our system have created breeding grounds for gangs and for drugs and for gun crime. One of the saddest parts of my job has been to attend the funerals of young people shot and killed on the streets of our city. I've met with the families at those funerals and elsewhere and been told they feel abandoned. They have told me that they are frustrated with our justice system. They see the vandals and the gun-toting drug dealers back in their neighbourhoods hours after they're arrested. They will tell you a statistic that they know all too well. Seven out of 10 people charged with murder in Toronto last year were out on bail or probation at the time of their arrest. This is one of many indicators of a system that has gone seriously wrong.

I stood at the casket of young Jordan Manners, a young man shot dead in his school, a young boy shot dead in his school, and when his mother asked me to promise to do what I could do so that her son didn't die in vain, I said that I would do as she asked. Keeping that promise is

about fixing these neighbourhoods and it is about helping those kids and families, but it is also about focusing people's attention on the breakdowns in our justice system so that we can fix it. And I can tell you right now I will speak out on this issue today and tomorrow and every day of this campaign and every day thereafter and I just won't be speaking about the breakdown. As the premier of this province I will be doing something about it as well because it simply has to be fixed.

I will put an end to the catch-and-release justice system that has flourished under Dalton McGuinty. Unacceptable bail and sentencing and plea-bargaining deals for dangerous criminals will be brought to an end. I will make that system more transparent. There will be regular reports on the number of bail-and-sentencing deals taking place and the number of people who are released only to reoffend. We should know that information. We will order an automatic inquest any time that someone is out on bail or probation or parole and causes a death. If you cannot walk down the streets of any community in this province without fear of being mugged or assaulted or shot, then yes that is a breakdown in justice that threatens our quality of life. When you cannot count on the law to protect your safety, to protect your property, and to treat you the same way as everybody else, then the foundation of civil society is diminished.

Just this past weekend I went down to the town of Caledonia as I have eight times now. I met with several local families who have been living in fear for 577 days while an ongoing Aboriginal land occupation has torn apart an entire community. People have been assaulted, acts of vandalism have been common, schools have been closed, businesses damaged.

Let me tell you about the Ontario that I saw in Caledonia. It is an Ontario where frightened people look you in the eye and they tell you that the rules and the laws that all of us in this room take for granted just don't

seem to apply there anymore. Right now in our province our fellow Ontarians have been living in the shadow of razor wire fences for sometime. And our fellow Ontarians have been called upon to show so-called passports just to access their own homes.

The current government has done virtually nothing about this travesty of justice. As premier, I would stand up for the rule of law. One law for all. Just as I reject two-tier medicine and two-tier religious school funding, I also reject two-tier justice. I can tell you that I feel very strongly that we have let down our Aboriginal people over decades on land claims and other issues and that I intend to do much, much better working with the federal government and anybody else I can to do better for our Aboriginal people. We will not solve that problem by letting people, any people, ignore the rule of law.

The current premier turns a blind eye to protestors who issue illegitimate so-called building permits to force payments from people who have clear title to land and who have sought and received all required approvals. We must clarify the laws so that people know their rights and so that those who choose to occupy land, any people who choose to occupy land, understand that there are consequences that follow that choice. The amended law that we will bring in when we form the government will respect the valid interests of all sides, will protect innocent bystanders, and provide a clear legal framework for the police. These are steps that any real leader would take to preserve and protect those institutions that lie at the heart of our civilized democratic society. I will lead in this area where others have refused to do so.

I want to be a leader for Ontario that people can look up to. One whose word is his bond, who will never stop listening to them. The notion that your word is your bond I think for most of us is something that is put into us from the earliest days. It certainly was in my home. I have said before that I remember going with my grandfather (he

had a trucking business in downtown Toronto) to his garage and I used to go there many Sundays. It was a place that was fascinating for a young boy. I saw him do business by shaking someone's hand. And my concept of what you are doing when you are campaigning for public office is you are shaking the hand of the voters. You shake some of their hands physically, but when you make a commitment to them you are shaking the hand of every voter and telling them that I'm going to do what I said I'm going to do. Your word is your bond and you must never stop listening to the voters because they always have something to say and you can always learn.

I want to live in an Ontario that captures the promise that I see all around us—the equality of opportunity, the benefits of enterprise, and the effectiveness of our health and education systems for all to access. I want to build an Ontario where no poverty is permanent, where our shared values and common stability mean that there are no strangers. An Ontario where the chance for improvement and a better future is the birthright of all. As a Progressive Conservative, I believe in an Ontario where freedom and responsibility are partners in shaping the future that we need. As a Progressive Conservative I believe that economic growth and social progress go hand in hand and that you cannot have one without the other.

The challenge we face embraces the courage to listen and the determination to lead. Ontario needs leadership that will face up to the tough choices and does not fear the tough choices. Every Ontarian has the right I think to aspire to something more for his or her family, for his or her community, or for his or her province. That is the promise of Ontario. It's our duty to protect and to strengthen and to enhance that promise so that Ontario can lead once again. That's why I want to be the premier of this province.

Thank you very much.

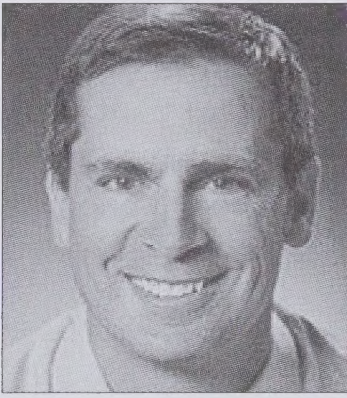
The appreciation of the meeting was expressed by Allan P. O'Dette, Director, External Relations and Public Affairs, GlaxoSmithKline Inc., and President, The Canadian Club of Toronto.



John Tory, Leader of the Progressive Conservative Party of Canada, and Nona Macdonald, Past President, The Empire Club of Canada.



John Tory, Leader of the Progressive Conservative Party of Ontario, and Catherine Swift, President, The Empire Club of Canada.



October 3, 2007

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

The Hon. Dalton McGuinty

Premier of Ontario

LOOKING OUTWARD TOGETHER

Chairman: **Allan O'Dette**

President, The Canadian Club of Toronto

Head Table Guests

The Hon. Dwight Duncan, Minister of Energy, Government of Ontario; Helen Burstyn, Chair, Ontario Trillium Foundation, and President-Elect, The Canadian Club of Toronto; Warren Jestin, Senior Vice-President and Chief Economist, Scotiabank; Stéphane Boisvert, President, Enterprise Sales, Bell Canada; Ratna Omidvar, Executive Director, The Maytree Foundation; Heather Devine, Associate, Gowling LaFleur Henderson LLP, and Director, The Empire Club of Canada; Heather Reisman, CEO, Indigo Books; Renato Discenza, Senior Vice-President, Enterprise Sales, Bell Canada; Geoff Smith, President, EllisDon Construction; Coralie D'Souza, Vice-President, Multiculturalism, Ontario Liberal Party; The Hon. Greg Sorbara, Minister of Finance, Government of Ontario; The Hon. Belinda Stronach, MP, Newmarket-Aurora, and Executive Vice-Chair, Magna International; Dr. Ilse Treurnicht, CEO, MaRS Discovery District; Mohammad Al Zaibak, CEO, Helpcaster Technologies Inc.; Greg Wong, CFO, Gulf & Pacific Equities Corp., and Director, The Canadian Club of Toronto; and Catherine S. Swift, President, Canadian Federation of Independent Business, and President, The Empire Club of Canada.

Introduction by Allan O'Dette

Ladies and gentlemen, members of the Empire and Canadian Clubs, it is with great pleasure that I introduce today's guest speaker.

Dalton McGuinty is Ontario's 24th premier and I can share with you something he told me just before lunch. He would very much like to be Ontario's 25th premier.

Next Wednesday, the people of Ontario will choose their provincial government, after a campaign that has been—as they so often are—eventful, thought-provoking and exciting.

Regardless of who wins, many challenges will face Ontario's 25th premier—a dollar at par, an aging population, a need to rapidly become a major leader in innovation and research, challenges in education at all levels, challenges in health care—but in spite of these challenges I can tell you based on my conversations with the Premier that he still wants the job.

Last week John Tory spoke to some of these challenges and others that he sees as leader of the Progressive Conservative Party of Ontario. Today, we are fortunate to have Premier Dalton McGuinty with us to share his thoughts on these challenges and others that voters have been speaking to him about over the last few weeks as we head into the final stages of the election.

I'd like to acknowledge the fact that in an election campaign full of frantic stops, photo ops, and city hops, the Premier has made the time to be with us for today's luncheon.

Just a little background on Premier McGuinty.

He was elected to the Ontario legislature in 1990 in Ottawa South, and re-elected in 1995, 1999 and 2003. During his years as a backbench MPP, he served as a critic for energy, colleges and universities, native affairs and the environment.

In 1996, he was elected leader of the Ontario Liberal Party. In 2003 he led his party to form government, sweeping to power with 72 seats and 47 per cent of the vote.

The mantra of Premier McGuinty's Liberal Party in this election is: "We've accomplished a lot, but there's a lot left to do." Today we look forward to the Premier expanding on these challenges.

How can we make this great province a better place? If the Liberal Party wins next week's contest, how will they work to get us there?

Ladies and gentlemen, please join me in welcoming to our podium our very special guest, the Premier of Ontario, Dalton McGuinty.

Dalton McGuinty

Thank you very much for your very warm and enthusiastic welcome. It is an absolute delight for me to be here today and to be joined by my wife Terri. I want to thank Allan at the outset for his introduction. Allan has been coming to my events for many, many years now. He remembers when they were substantially smaller. We used to refer to the audience as the head table and that other table. To see him here in a crowd like this reminds us both of how far we've come.

Thank you to the Empire and Canadian clubs for this opportunity and thanks to all of you for coming out today in such great numbers. Whenever Terri sees this many people in the room where I am the speaker, she likes to encourage me by saying, "Are you sure we are in the right room?" Such is the support I receive on the home front.

Terri you may know is a schoolteacher and one of her favourite books and one of mine is a children's book entitled "The Little Prince." In essence it is a book about the clarity with which children see the world and the patience that they need to put up with the rest of us. It was written by a man named Antoine de Saint Exupéry, who knew something about idealism and hope and courage. In fact he wrote it a year before he died flying a battle mission over France after volunteering at the age of 42 to help liberate his homeland. He wrote something I found to be rather remarkable. He said that life has taught us that love does not consist of gazing at each other, but at looking outward together in the same direction. Looking outward together in the same direction. That was his definition of love.

If I were to express my greatest hope for this province, which I love deeply, it would be this: that we would look outward together in the same direction. I want Ontarians to look to the world filled with confidence. I want us to embrace the global economy and not shrink from it. I

want our collective resolve, I want our shared determination to not merely survive, not merely do alright. I want us to fly. We have a lot going for us.

We are located in what economic thinkers call one of the leading mega-regions of the world with access to the massive U.S. market. Ours is an open and diverse economy. From agriculture to resource management, from financial services to the service sector, from high-end autos to high-tech, we excel. We have the kind of infrastructure emerging countries dream of, whether you are talking about bridges or sewers or medicare, which is a true competitive advantage and the envy of much of the world.

One of the greatest privileges that you enjoy when you represent Ontario as a premier is you have the opportunity to meet with so many other leaders from different parts of the country, different parts of this continent, and indeed leaders from around the world, and it is interesting to hear them talk about medicare. When they talk about it they don't articulate it as such, but they talk about it with a great deal of envy.

We human beings throughout the history of humanity have been known unfortunately to be shallow and selfish and short-sighted and mean-spirited. We can be small, but there's something noble in people. I'm not talking about something that is awarded from without, but actually something that comes from within, something noble. You know what medicare does. It gives expression to this noble human desire to care for people when they are sick, not because they have money, not because of any office they might hold, not because of their station in life, not because of who they might be connected to, but just because they are sick. You should understand that when people around the world look at our system, this means by which we have found a way to give expression to this desire to help one another, it is truly precious and remarkable.

But our single greatest asset by far is our people. They speak every language, embrace every culture, have ties to

every market in the world, and they possess a work ethic that is second to none. We all know that we face challenges. We are a trading province and our trade is overwhelmingly with the Americans and they are experiencing economic challenges. Our manufacturers face outsourcing to China and other countries with low labour costs and our dollar has risen from 63 cents just five years ago to parity today. We have never seen such rapid upward movement and that too is putting pressure on our exporters.

We can overcome today's challenges and seize tomorrow's opportunities if we look outward and strengthen our greatest asset—our people. In today's world the best jobs and the most investment go to the places with the best-educated, most highly skilled people. We are only 13 million people here in Ontario, so if we are going to take on giants like China and India we need to ensure we are 13 million strong, that every Ontarian is at his or her best. That's why Ontario Liberals have dedicated themselves to publicly funded education. Our schools are where we equip our children with the education and skills they need to compete. It is why we are placing our dollars and our energy and focus on smaller class sizes and higher student achievement and is why in our second term we are going to phase in all-day kindergarten. With Heather Riesman's help and inspired by her leadership, we are going to fill our school libraries with new books. We need more and more and more of our young people to finish high school and go on to university, college, or an apprenticeship or workplace training.

I'm especially proud of a new program we have in place, which targets directly what we call first-generation students. It turns out that the single biggest indicator as to whether or not a young person is going to complete high school and go on to college, university, apprenticeship or some kind of workplace training is whether your mother or your father ever did that. My family is a good

example of that. My dad was the youngest of six kids. He was the only one in his family to complete high school. He went on to university and became a university professor. So we grew up in our household with a very heavy expectation that we would focus on our studies, that we would complete high school, that we would go on to college or university and in fact all 10 of us went on to university. Apart from the fact that four of us became lawyers, we all met with success.

This imperative to be at our best is why we have mobilized a small army of teachers and community workers whose sole focus is to help kids stay in school and help dropouts return to school. It is why we have added 86,000 spaces in our universities and colleges. It is why we have doubled student aid. It is why we have added 6,000 new apprenticeships with 6,000 more to come over the next four years. And it is why we have created 14,000 new graduate school spaces. That is the biggest ramp-up in the province's history and it is why we are investing more than ever before in research and innovation. We want to be the first to come up with new ideas, the first to develop them into new products and services, and the first to sell those breakthroughs, sell the next BlackBerry, and the next best hybrid car to the world.

Basically it seems to me there are two ways of approaching today's economy. There is an unimaginative, laissez-faire approach where your exclusive focus is the lowest taxes and the lowest business cost. Everything else then becomes secondary to that. This is the approach today's Conservative Party still clings to.

My experience as premier has taught me that this approach is shortsighted and not suited to the realities of competition in the global economy and it certainly is not in keeping with the aspirations of the people of Ontario. Our approach as Liberals is to run hard and fast in the race to lift up our people. I want to thank my brother who is starting that applause. Lifting up our people is right for

our society and it is the smart thing to do for today's economy. It is exactly what government and business leaders in India and China have told me they are trying to do to catch up to us. In a world where you can borrow capital, copy technology, and buy your natural resources, the only thing that can really set you apart from the competition is the skill and education of your people. So we need to develop talent and we need to recruit it.

Richard Florida, a leading thinker whom we managed to lure from the U.S. just recently to the Rotman School of Management, talks about the importance of building powerful, urban centres full of life and energy. These attract what he calls the creative class—workers, artists and professionals, who help fuel the economies of the world's major cities. So when our government contributed to a cultural renaissance here in Toronto, to the ROM, to the Art Gallery of Ontario, to the National Ballet School, and the Four Seasons Opera House, when we dedicated gas tax money to transit here and got to work developing downtown Toronto we were doing more than advancing the arts or building infrastructure. We were on a recruitment drive.

I don't buy the conservative approach that says government should just cut taxes and get out of the way of business. Yes, we are phasing out the capital taxes and, yes, we are working with Catherine and others to help small and medium-sized business by reducing business education taxes. But I just don't believe that the premier's place is on the sidelines. I believe it is my job to roll up my sleeves and work with business.

So we sat down with Ontario's auto sector, with management and labour, and we set up a \$500-million auto investment fund and we leveraged it into a \$7-billion new investment and thousands of jobs. We made Ontario, when it comes to auto production, first in North America and now we are going to leverage our new next generation job fund of over \$1 billion to help our companies and

workers develop the green technologies the world is clamouring for.

Ontario Liberals understand that we need a strong Toronto to build a strong Ontario. This great city is the heartbeat of our province and the engine of our economy. National governments around the world get this. They know that great cities fuel modern economies. In the U.S. and Britain and the great growing economies of Asia, nations are investing heavily in their cities. At a time of huge surpluses in Ottawa, the Government of Canada should be leading this race. That's why I'm calling on the Harper government to hand over one cent of the GST to Toronto and other municipalities to support new growth in the economy.

Succeeding today means moving forward together and that means leaving no one behind. So we are introducing the new Ontario Child Benefit to provide all low-income families with up to \$1,100 per child every year to pay for a healthy breakfast, supplies for school, and warm clothing, so every child will have the opportunity to succeed because we need those kids to succeed.

We didn't see the auto investment fund as corporate welfare and we don't see the Ontario Child Benefit as some sort of handout. We see them both as parts of a plan; a plan to lift up our economy by building opportunity, because we know that if we give our people the opportunity to succeed whether they're kids in schools or workers on the line, they can take on the world and win.

Our economy is in good shape. It's created 360,000 more jobs than we had just four years ago. We've created three jobs for every one that we've lost, but that doesn't paper over the fact that we've lost jobs particularly in manufacturing, so Ontarians have come together through our \$500-million advanced manufacturing investment strategy to help our manufacturers invest in innovative technologies so that they can compete.

Ontarians can take on the world and win if we work and build and dream together and that starts within our

schools. We need our children to look outward together, not gaze at each other across a divide, each in their own schools according to their own faith. We need to maintain our focus and concentrate our resources on those smaller class sizes, higher test scores and higher graduation rates. If we spend the next two years, my friends, in a quagmire of our own making, debating what constitutes a religion and exactly where the Good Book must yield to the textbook, we risk standing still while the world passes us by.

That is part of my pitch to the world, but I'm marketing everything that we have here. I tell them that back in Ontario 27 per cent of the people living there were born outside the country. I tell them in the GTA 52 per cent of the people living there were born outside the country. They immediately conjure up pictures they've seen of struggle and strife on the streets of Paris and London and Germany and the Netherlands so they say to me, "Well, what are you doing right? How are you making this work with such diversity?"

I like to think that an important part of the foundation of social adhesion is that we bring our kids together, allow them to come together, and learn together and grow together. In our schools I want Muslims sitting beside Sikhs, sitting beside Hindus, sitting beside Jews, sitting beside Christians, sitting beside Buddhists. I want us to aspire to doing something more than just educating children and developing a strong work force and developing caring citizens who help to build a strong, caring, and compassionate society. We need to feel a sense of responsibility here. We owe it to the world to demonstrate that we can be a beacon, we can be a shining example, we can actually find strength in diversity and that's why it is so important that collectively we continue to support publicly funded education for all our children.

You and I have a marvellous foundation on which to build. I know it's human nature for us to focus on work outstanding, things that have to be done, but this is the greatest

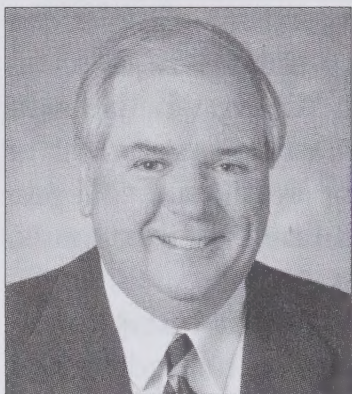
province and the most blessed country in the world and we have a strong foundation on which to build. Whether you think of our system of health care, medicare, whether you think of our publicly funded education, whether you think of our research institutions, public and private, our colleges, our universities, our hospitals, our infrastructure, roads, bridges, all of that much of the world envies.

I'm here today speaking to you about our plan to strengthen our economy and I hope I've helped you to come to understand that the single most important economic strategy that we can deploy in a knowledge-based global economy is to invest in our people, our simplest greatest asset. For Liberals the economy has never been the ultimate end. It's been the means to a higher end. A guy by the name of Robert Browning once said, "A man's reach should exceed his grasp. Or what's a heaven for?"

So at the end of the day what are you and I really after? What do we really want? I think people deep down want to leave something of lasting value to their kids and their kids' kids, more than just a strong economy. Anybody can lust for a strong economy. What I want on behalf of all our children and all our children's children is a strong, caring, compassionate society, that wonderful ideal that reminds us, each and everyone of us, that we are in this together. It speaks to something noble inside people, something deep down in each and every one of us. It tells us it is right to care for one another. It is right to look out for one another. It is right to support one another. It seems to me, my friends, that that is something. A strong economy that supports a caring society is something worthy of our greatest efforts. That is something worthy of the dreams that maybe we secretly dream for all our children.

Thank you very much.

The appreciation of the meeting was expressed by Catherine S. Swift, President, Canadian Federation of Independent Business, and President, The Empire Club of Canada.



October 4, 2007

G.R. (Randy) Barber

President, International Churchill Society, Canadian Chapter

SIR WINSTON CHURCHILL— INTERESTING FACTS AND QUOTES

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Sylvia Morawetz, Principal, S.A.M. Solutions, and Director, The Empire Club of Canada; Ahmed Abdi Ahmed, Senior Student, Westview Centennial Secondary School; Reverend Canon Philip R. Bristow, Senior Pastor, St. Philip's On-the-Hill Anglican Church, Unionville; Solveig Barber, Professional Singer; The Hon. Henry N. R. Jackman, OC, KStJ, OOnt, CD, LLD, Honorary Chairman, The Empire Life Insurance Company, Former Lieutenant-Governor of Ontario, and Past President, The Empire Club of Canada; John C. Koopman, Partner, Spencer Stuart, and Past President, The Empire Club of Canada; Peter K. Large, Barrister and Solicitor, Past President, Churchill Society; and Don Cousens, Former Mayor, Town of Markham.

Introduction by Catherine Swift

I imagine that it would be a rare person who did not agree that Winston Churchill is a giant of history and someone who significantly altered the course of world events in a positive way.

When I am looking for quotes, I have found Sir Winston to be one of the most quotable figures of history. For instance, some of my favourite Churchillian quotes include such gems as:

“A fanatic is one who can’t change his mind and won’t change the subject.”

“Although prepared for martyrdom, I prefer that it be postponed.”

“An appeaser is one who feeds a crocodile, hoping it will eat him last.”

“History will be kind to me for I intend to write it.”

And the famous: “It has been said that democracy is the worst form of government except all of the others that have been tried.”

Our speaker today, Randy Barber, is the President of the International Churchill Society, Canadian Chapter. The mission of the Churchill Society is to preserve and promote the accomplishments of Winston Churchill.

Randy has a very eclectic biography, having such diverse experience as Chair of the Alcohol and Gaming Commission of Ontario from 1997 to 2005 and Ward Councillor of the Town of Markham from 1994 to 2000, where he earned the nickname “The Graffiti Fighter.”

He was a Senior Account Executive with Callpro Canada Ltd. from 1982 to 1995, a sales manager with VMS Inc. from 1979 to 1982, and Director of Entertainment with the Commonwealth Holiday Inns of Canada from 1971 to 1979. He was also a banker in his early career as an Assistant Branch Manager with the Bank of Montreal from 1966 to 1971.

Just last week he was appointed to the National Parole Board for a three-year term. Today he will be speaking on the life accomplishments of one of the world’s greatest citizens, Sir Winston Churchill. Please join me in welcoming Randy Barber.

Randy Barber

Madam President, head table guests, friends, ladies and gentlemen:

Thank you for that kind, sincere and accurate introduction. As a “recovering politician,” I do appreciate it.

As a matter of fact Madam President, it is most likely the second-best personal introduction I have ever heard. The only one better perhaps was at a speaking engagement a year or two ago when the fellow to introduce me

fell ill at the last moment and I was forced to introduce myself!

As I look out over this audience today, I am reminded of a remark made by my friend Senator Hugh Segal. In the last few months, I have been speaking at nine seniors' homes in the Markham area and of course, Senator Segal addresses the Upper House on occasion.

And as I look around this room today, I too feel that I am addressing an audience that still realizes "depends" is a verb and not a noun.

Speaking of dependence, I would like to pay tribute and introduce my Churchillian mentor, who handed the reins of the ICS-Canada presidency over to me in 1990—John Plumptre.

I have prepared an address today for as Churchill once admonished, "He spoke without a note and almost without a point."

In 1960, a 16-year-old American high school student sent a letter through the post addressed simply to "The Greatest Man in the World." The letter was delivered to 28 Hyde Park Gate in London, England. The resident of that address was Sir Winston Churchill.

Today, many young people under 30 have no idea who Sir Winston Churchill was. A few years back, Winston Churchill Secondary School in Scarborough conducted a poll of its 1,000 students to see who could identify him. Some thought that he was the first principal of the school. Sadly, many could not even hazard a guess.

Each year for decades Time Magazine names a Person of the Year. In 1950 Winston Churchill was named the Man of the Half Century. He was certainly a candidate for Time's person of the century (note the politically correct shift!) in the year 2000, coming second only to Albert Einstein.

In the United Kingdom in 2005, he was voted "The greatest Briton who ever lived."

There are still six to 12 books written each year about a deceased Victorian aristocrat who died in 1965 at 90 years of age.

Let me quote from one of them, by well-known Churchillian, Judge Douglas Russell from Iowa, in his recent book "Winston Churchill—Soldier: The Story of a Gentleman at War."

"At the height of the Victorian empire, Churchill served as a cavalry officer in the British army, 'seeking the bubble reputation even in the cannon's mouth.' Between 1895 and 1900 he saw combat in Cuba, India, the Sudan and South Africa, was mentioned in dispatches, earned four campaign medals and the Spanish Order of Military Merit, wrote five books, established himself as a popular war correspondent and lecturer, gained international fame as an escaped prisoner of war, and was elected to a seat in Parliament—all before his twenty-sixth birthday."

Today's heroes to youth—rock stars and basketball players—pale in comparison.

Now my Empire Club blurb promised that I would shatter myths so the first one is that Churchill and his father Lord Randolph saved a boy who would become Sir Sanford Fleming, the discoverer of penicillin, from drowning in a bog in Ireland in the 1890s. This heart-warming fallacy has been circulating on the Internet for several years now—it is bunk!! As is the urban myth about Winston's 125-year-old parrot that has been found in a bordello in Mexico City, swearing a blue streak with an English accent. The Churchills never owned a parrot, and even if they had, one of a long succession of Chartwell cats would likely have "de-perched" it!!

What is true is the fine introduction of Churchill by Empire Club President Hugh Eayrs, as he was about to address a joint meeting of the Empire and Canadian clubs and the Board of Trade in 1929. He said, "The guest of honour, the Rt. Hon. Mr. Winston Churchill, follows logically in the distinguished line of ambassadors of Empire

who have come to Toronto in recent months. We have had the Rt. Hon. Mr. Stanley Baldwin, the Rt. Hon. Col. Amery, Sir Austin Chamberlain and that ambassador extraordinary His Royal Highness, the Prince of Wales. And now we have Mr. Churchill. No man has served his country and the Empire better. He has held practically every important portfolio in a number of ministries in England.

HE HAS NOT YET BEEN PRIME MINISTER.

I imagine he is saving that for a little later on. As a statesman, as a soldier, as an author and historian, his services have been signal, but it is rather for his personal qualities than for his achievements that one commends him to this audience. And for one quality in particular—that of personal courage. Dr. Samuel Johnson says, “He that hath not this virtue hath no security for the preservation of any other.” And so gentlemen, here is the Rt. Hon. Mr. Winston Churchill, the gentleman of courage.”

Now I commend this speech to you—an address that was interrupted some 30 times for applause.

I humbly beg you not to break that record today.

Churchill was a young man in a hurry and always seemed confident in knowing where he was going and what he wanted and that was the prime ministership.

He said, “I am not usually accused, even by my friends, of a modest or retiring disposition.” In 1907, just 33, he said, “We are all worms, but I do believe I am a GLOW WORM.”

With his whole being he believed that “the price of greatness is responsibility.”

But beginning in the year of his speech here in Toronto and other major cities in Canada, he was in his “wilderness years,” excluded from Cabinet by his own Conservative Party which he had rejoined in 1922, after having been a Liberal since 1904. He was never a member of the Labour Party, which he described as “government of the duds, by the duds and for the duds.”

He was not trusted to tow the party line as he opposed independence for India primarily because he feared war between the Muslims and Hindus—which of course eventually did occur in the late 1940s.

Churchill also supported King Edward VIII in the abdication crisis of 1936 when it was clear that Chamberlain and the Archbishop of Canterbury wanted the king to resign over his intended marriage to Wallace Warfield Simpson.

Now Edward was a personal friend and one of Churchill's most endearing qualities—and greatest flaws—was his unyielding loyalty to his friends, no matter what the personal cost to him. He described himself to his good friend Lord Beaverbrook, Canadian Max Aitken, originally from New Brunswick and a staunch ally of Churchill's in his war cabinet, as "a foul-weather friend."

There is probably no greater example of the right man, at the right place, at the right time, than Winston Churchill in 1940. He had warned against Hitler and Nazism from early times and he had advocated increased military and naval re-armament even when Britain was still recovering from the horrible trauma of the Great War.

Churchill was 65 years old when he became Prime Minister on May 10, 1940.

He had finally attained his lifelong goal proving true what was said of him in the early 1930s that "England will turn to Churchill when times become forlorn." And it did!

Today I am part of an organization with over 3,000 members throughout the world—the International Churchill Societies and the Churchill Centre, which celebrate Sir Winston's enduring place in history and his relevance in today's world.

We publish a high-quality magazine—*Finest Hour*—four times a year; we republish books by Churchill that are worth \$20,000 or more in their signed first editions; we support the work of Sir Martin Gilbert, his official biographer, who has published an eight-volume biography

and is now working on the 16th volume of support documents for that biography.

Indeed, on October 16 next, we will host the Canadian launch of Gilbert's 79th book, "Churchill and the Jews," at the Albany Club.

Our patron, the Lady Soames LG DBE, née Mary Churchill, says of our work that we "keep the record accurate and the memory green."

My wife, Solveig and I, and 250 or so others, helped her celebrate her 85th birthday three weeks ago in Vancouver at the Societies 24th annual worldwide conference.

I wrote to Lady Soames, enclosing a copy of her father's address to this club some 78 years ago. She has sent me a message of greeting to the Empire Club and to all of you.

Soames letter was read.

Well then, why DO we study Churchill's life, his pre-science, his faults and foibles?

Churchill was really the last of his kind, a sentiment echoed by many a newspaper around the world, seemingly on a daily basis. He was a politician, statesman, orator, writer, historian, painter, bricklayer, prime minister and lover of books, cigars, Pol Roger champagne and French brandy, not to mention Johnnie Walker Black Label scotch. Winston Churchill was always satisfied with the best!

He was born into one of Britain's great aristocratic families. A grandson of the Duke of Marlborough, he was born in 1874—halfway through Queen Victoria's reign—at Blenheim in Woodstock, a palace of 320 rooms, three acres of roofs, and 2,700 acres of parks and gardens near Oxford. He proposed to his wife Clementine in one of those gardens called the Temple of Diana, and would later say: "At Blenheim, I made two very important decisions: to be born and marry. I am content with the decision I

made on both occasions. I have never had cause to regret either decision.”

His full name was Winston Leonard Spencer Churchill—the Spencer giving him a family link to Princess Diana, deceased ex-wife of the next King of England, Charles, Prince of Wales.

At a young age he was sent away to school, Harrow, leaving his mother whom he described thusly, “My mother seemed to me a fairy princess; a radiant being possessed of limitless riches and power. She shone for me like the Evening Star. I loved her dearly—but at a distance.”

In the following paragraph, an excerpt from the biography of the author of “Rumpole of the Bailey,” John Mortimer, “Clinging to the Wreckage,” Mortimer was reminiscing with his classmate Oliver of his time at Harrow in 1940, singing the old school songs:

“Winston Churchill, then First Lord of the Admiralty, came down to this strange ceremony which he apparently enjoyed. After the school songs were over, Mr. Churchill climbed with difficulty on to the stage. He cannot have been more than 65 years old, but his ancient head emerged from the carapace of his dinner jacket like the hairless p $\hat{a}$ te of a tortoise, his old hand trembled on the handle of the walking stick, which supported him, and his voice when he spoke, was heavily slurred with brandy and old age.

“He seemed to us as young men to be about 103.”

Mortimer continued, “I whispered to Oliver, ‘If they ever put HIM in charge of the war, God, help us all!’”

“Oh, they wouldn’t do that,” Oliver assured me. “They’ll never do that. A chap in the government told my ma they’d never do that.”

How wrong he was and how fortunate for all of us too!!!

Back to Harrow for songs again in 1941, Churchill told the boys, “Never give in. Never, never, never, never—in

nothing great and small—large and petty—never give in except to convictions of honour and good sense.”

Churchill was honoured throughout his life for his command of the English language. He may have contributed to word pictures within the English language more than any person since William Shakespeare. While often accused of ornate and flamboyant rhetoric, particularly in the House of Commons, one must be moved by some of the original phrases penned by Winston Churchill, which still ring out through the decades in their simple majesty.

“Give us the tools and we will finish the job.”

“I have nothing to offer but blood, toil, tears and sweat.”

“We shall never surrender until the new world steps forth to the rescue and liberation of the old.”

“And if the British Empire lasts a thousand years, men will still say, THIS was their finest hour.”

“Never, in the field of human conflict, has so much been owed, by so many, to so few.”

Brevity gave his words so much of their power. He said, “Short words are best, and old words, when short, are best of all. All the greatest things are simple and can be expressed in a single word—Freedom, Justice, Honour, Duty, Mercy, Hope.”

In 1940, when it looked like England would be invaded from occupied France, a civil defence was to be formed. Originally called Local Defence Volunteers or LDVs, Churchill changed it to “Home Guard” as he said LDV stood for “LOOK, DUCK and VANISH.”

A young man once asked Churchill for advice and he was told to “study history, study history. The farther backward you can look, the farther forward you can see. In history lie all the secrets of statecraft.”

Churchill was a “student of history” who then made it and then wrote about it. He published over 55 books, contributed to dozens of others and wrote over 700 feature

articles for newspapers and magazines. He said of personal libraries in general, "If you cannot read all your books, at any rate handle, or as it were, fondle them, peer into them, let them fall open where they will, read from the first sentence that arrests the eye, set them back on their shelves with your own hands, arrange them on your own plan that if you do not know what is in them, you at least know where they are. Let them be your friends. Let them at any rate be your acquaintances." I am proud to own originals from 1901, the year Queen Victoria died on January 22nd. Winston Churchill in Winnipeg sailed for home to attend the funeral. By the way, Churchill was in Toronto on the first day of the twentieth century.

Incredible as it may sound, while he was one of the most active and pre-eminent politicians in the British Parliament, he produced:

- A two-volume biography of his father, Lord Randolph;
- A four-volume biography of his great ancestor, the Duke of Marlborough;
- A six-volume history of the Great War called "World Crisis";
- A four-volume history of the English-speaking peoples; and
- A six-volume history of the Second World War.

He said, "Writing a book is an adventure. To begin with, it is a toy, an amusement; then it becomes a mistress and then a master and then a tyrant."

How many of you know that, in 1953, Churchill received the greatest literary award in the western world, when he was honoured with the Nobel Prize for Literature for the totality of his literary contributions?

United States President John Fitzgerald Kennedy also championed Churchill's ability with words when, on the occasion of the singular honour of presenting an honorary citizenship of the United States to him, said that Churchill, during World War II "mobilized the English lan-

guage and sent it into battle,” which was a “borrowed” quote from Edward R. Morrow.

Churchill’s wit made him a “FORCE MAJEUR” when dealing with friend and foe.

About Stanley Baldwin, he said that history would deal severely with the Prime Minister. “I know, because I shall write it.”

He accused Labour Leader Ramsey Macdonald whom he labelled “The Boneless Wonder” of “compressing the largest number of words into the smallest amount of thought. Ramsey has all of the virtues I abhor and none of the vices I admire.” As general counsel, he also said, “Never trust a man who has not a single redeeming vice.” And finally, he opined, “If this is a world of vice and woe, I’ll take the vice and you can have the woe.”

For post-war Labourite and Prime Minister Clement Attlee, he cut him to the quick. He said that Attlee was “a sheep in sheep’s clothing.” On another occasion he said that he was “a very modest man with much to be modest about.” And I believe his best word picture occurred when he said that “once an empty taxi drove up to the House of Commons and Clement Attlee got out.”

After the war, his daughter Sarah’s husband, a nightclub musician, and considered by Churchill beneath her station in life, asked him which of the war leaders was the greatest. Winston Churchill replied, “Mussolini, because he had the courage to have his son-in-law Count Ciano shot.” True, Ciano died of lead poisoning, very quickly, in front of a firing squad, for treason against his father-in-law.

“If you destroy a free market, you create a black market.”

Then he took aim at certain women and others outside the House of Commons.

Lady Astor: “Winston, if I were your wife, I would put poison in your coffee.” Winston Churchill: “Nancy, if you were my wife, I would drink it.”

Another woman MP, noted more for her strong independence than for her beauty said to him, "Winston, you are drunk." Winston Churchill, "And you, madam, are ugly. (Say it with me) And tomorrow I shall be sober." Not sure if that one is apocryphal but is too good to leave out until it is verified in a book later this year.

George Bernard Shaw sent him two complimentary tickets to his play with a note, "You are invited to my premiere. Come and bring a friend—if you have one." Winston Churchill replied: "Impossible to be present for first performance. Will attend second—if there is one."

It is said that a hostile voter once accosted Churchill immediately after an election in which the latter had retained his seat in Parliament. The voter said with a sneer, "I presume we may expect you to continue to be humbly subservient to the powerful interests that control your vote." To which Churchill replied with a growl, "I'll thank you to keep my wife's name out of this."

Even when he reprimanded someone he could use his wit. During the war, some nameless bureaucrat issued a memo to government officials, which crossed Churchill's desk, saying that despite the chaos of war, proper standards of English must be maintained in written government communications and outlining some rule which included, not ending a sentence with a preposition. When he saw the memo, Churchill exploded that this was the sort of bureaucratic nonsense "up with which I shall not put."

A few other tidbits of fact for you.

He served under six British monarchs from Queen Victoria to Elizabeth the Second, and at the same time, 18 U.S. presidents from Ulysses S. Grant in 1873 to Lyndon Johnson in 1965, and 14 Canadian prime ministers from Sir John A. Macdonald to Lester B. Pearson.

It is true that he knew and corresponded with virtually all of them concerning vital issues over the years that they shared the world's stage with him.

He had several things to say about his penchant for alcohol in its myriad forms. "When I was a young subaltern (second lieutenant) in the South African campaign, the water was not fit to drink. To make it palatable, we had to add whisky. By diligent effort, I learned to like it."

"Stilton and Port are like man and wife. They should never be separated. Whom God has joined together, let no man put asunder."

At another time he said, "A single glass of champagne imparts a feeling of exhilaration. The nerves are braced, the imagination is agreeable stirred, the wits become more nimble. A bottle produces a contrary effect."

And finally, he said of brandy, "I neither want it nor need it but I think it pretty hazardous to interfere with the ineradicable habit of a lifetime."

Field Marshall Montgomery, "I do not drink nor smoke and I am 100-per-cent fit. Winston Churchill: "I both drink and smoke and I am 200-per-cent fit."

At another time he said, "I get my exercise being a pall-bearer for those of my friends who believe in regular running and callisthenics."

He smoked cigars, usually six to eight a day, and sometimes never lit, which, of course, eventually became his personal icon along with the "V" sign. Always Cuban—Romeo and Julietta and of Churchillian proportions. When Castro took over from Batista, his personal cigar roller and shipper escaped to Florida with a huge supply and some seeds too and continued to supply him until his demise.

It was in Cuba, at 21 years of age in 1895, where he picked up the cigar habit and from where he wrote to his mother a famous Churchillian understatement, "Nothing in life is so exhilarating as to be shot at, without result." Philosophically he related, "Smoking cigars is like falling in love; first you are attracted to its shape; you stay with it for its flavour; and you must always remember—never, never let the flame go out."

"Tobacco is bad for love; but old age is worse."

And finally he rolled it all up by stating, "My religion prescribed an absolute sacred rite of smoking cigars and drinking alcohol."

After the Dardanelles debacle, also known as Gallipoli, he was forced to resign as First Lord of the Admiralty and he turned to painting for relaxation.

Pablo Picasso remarked, "Churchill was good enough to have made a living as a painter." When asked why he painted landscapes and not portraits, he replied, "A tree doesn't complain that I haven't done it justice."

At last count, 537 of his canvasses have been identified.

He said about his pastime, "When I get to heaven, I mean to spend a considerable portion of my first million years in painting and so get to the bottom of the subject."

There are at least three books about his paintings including one he wrote himself called "Painting as a Pastime."

He called his death, "Operation Hopenot." "I am ready to meet my maker. Whether my maker is prepared for the great ordeal of meeting me is another matter."

He added, "The world does not end with the life of any one man."

Musing on the type of company he should like to find in Heaven, he said, "Stained perhaps, but positive, not those flaccid sea anemones of virtue who can hardly wiggle an antenna in the turgid waters of negativity."

In January 1965, his last recorded statement was purported to be, "It has been a grand journey. Well worth making—ONCE."

Allow me to close by paraphrasing the great man. On the occasion of his 80th birthday in 1954, when he was labelled "The British Lion," he humbly said, "It was the nation and race dwelling all around the globe that had the lion's heart. I had the luck to be called upon to give the roar."

I too did not write his words; I only had the honour and pleasure to bring some of them to you today.

I, of course, have nothing more to add and I thank you for celebrating some of Sir Winston's rich life with me.

The appreciation of the meeting was expressed by John C. Koopman, Partner, Spencer Stuart, and Past President, The Empire Club of Canada.



Catherine S. Swift, President and CEO, Canadian Federation of Independent Business, and President, The Empire Club of Canada, and Ann Curran, Director, Corporate Relations, AIC Limited, and Past President, The Empire Club of Canada.



October 12, 2007

Dr. Brian Day

President, Canadian Medical Association

AN END TO RHETORIC: PUTTING PATIENTS FIRST

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Sylvia Morawetz, Principal, S.A.M. Solutions, and Director, The Empire Club of Canada; Bonnie Huynh, Grade 12 Student, Jarvis Collegiate Institute; Reverend Canon Anthony Jemmott, Incumbent, St. George's Anglican Church, Oshawa; Robert Ouellet, President-Elect, Canadian Medical Association; Jo-Ann McArthur, President, Jo-Ann McArthur Strategies Inc., First Vice-President and President-Elect, The Empire Club of Canada; Jonathan Guss, CEO, Ontario Medical Association; and Larry Mohr, President and CEO, Practice Solutions Ltd.

Introduction by Catherine Swift

One definition of a Canadian is that we are disarmed Americans with free health care. Health care is certainly the issue of our time, and as health-care spending continues to take over provincial budgets across Canada, it has become very clear that our current system is broken and we urgently need to do something about it. Unless some fundamental changes are brought into the system, things will only get worse as we baby boomers age, people generally live longer and

new treatments and technologies, wonderful as they are, continue to increase health-care costs.

Despite these trends, the debate on this topic in Canada has contained much more heat than light. Many politicians and others want to maintain the status quo, pretending that things are just fine as long as we continue to throw more and more money at an increasingly flawed model. We have had study after study, most recently the Romanow report, which have more or less bolstered this point of view purely for political reasons. It is disappointing to say the least that most Canadians seem happy to accept this diagnosis as there doesn't seem to be any great demand for an honest, factual, informed debate on this issue.

But we can't continue to keep our head in the sand without jeopardizing the system that Canadians hold so dear. Honest debate on this issue is exactly what is needed. Our speaker today has had the courage to confront the facts and propose solutions despite the many vocal naysayers trying to silence him. The fact that he was elected President of the Canadian Medical Association is, in my view, a positive sign that the medical profession itself realizes that new approaches are needed.

Dr. Brian Day graduated in medicine in 1970 from the University of Manchester and, after pursuing post-graduate studies in England in internal medicine and surgery, he came to the University of British Columbia for a residency in orthopaedics. He began his medical practice at the Vancouver General Hospital and UBC in 1978. He has been a part-time professor at UBC since 1987, and has chaired several international seminars on arthroscopic surgery, and from 1989 to 1994 he chaired the orthopedic test committee for Canada's Royal College of Surgeons. He has published more than 100 scientific articles and book chapters in areas of orthopedics, arthroscopic surgery and sports medicine. He has also been active on the editorial boards and committees of several scientific and medical journals.

In 1995, Dr. Day founded the Cambie Surgery Centre, a private surgical facility. He is also a past-president of the Arthroscopy Association of North America, the world's leading academic society in his field of practice. Dr. Day was only the second Canadian to have this post. He is here today in his capacity as President of the Canadian Medical Association for the 2007–2008 year. Please join me in welcoming Dr. Brian Day.

Brian Day

Thank you very much. It is my honour to be speaking at the Empire Club and to bring greetings from the more than 65,000 physician-members of the CMA.

I am very honoured to be the 140th president of the CMA. Our first president—Father of Confederation, Sir Charles Tupper—became Prime Minister of Canada. Of course, Canadians, in their collective wisdom, have chosen to never repeat the mistake of electing a doctor to the highest office in the land.

The Empire Club has a long history of providing a forum for the discussion of important issues and no issue is more important today than the health of Canadians.

I am an orthopaedic surgeon—one of the “Doctor Fix-its” of the profession. We have a simple approach: when bones or joints are broken or not functioning properly, we try to fix them. By analogy, I don’t believe the Canadian health system is functioning well. It needs fixing. If I didn’t think that were possible, I would not have run for this job, and would not be here today.

Supporters of the status quo reject solutions proposed by the CMA. In fact, they reject all solutions. When Mark Twain warned: “I’m all for progress; it’s change I don’t like,” he was surely referring to people like them. Many distort our messages. I’ll give you an analogy.

This is, I’m afraid, a golf story. About six years ago I, a non-golfer, was coerced by friends to play in a charity tournament. In my first-ever 18 holes, I hit a hole-in-one. Today, if I hit a hole-in-one, there are some who would relate the story as “Brian Day, CMA President, doesn’t know how to putt”! I suppose that goes with the job. I’d like to speak to you today about how health care can be strengthened and renewed to meet the needs of Canadians. Canada’s doctors are committed to achieving that goal. There are three very important steps.

Number one. We need a system that puts patients and their needs first. Not one that serves politicians, academics, ministry bureaucrats, hospital workers, or health professionals. The needs of patients must come first.

Number two. We must reject empty political rhetoric and embrace renewal. The undue politicization of health care has resulted in a rich and successful country like ours having one of the most expensive yet least effective health systems in the developed world.

Number three. We must see health-care funding as an investment. By investing in the health of Canadians, we can realize a significant return, both medically and financially.

Let me expand on those points.

Over the years, I have been called names like Dr. Profit and even the Darth Vader of health care. But I want to assure you that my goal, and the goal of the Canadian Medical Association, is to help improve our universal system, not destroy it.

We want a system that recognizes that patients come first.

Patients in Canada pay dearly both in taxes and out of pocket, yet they cannot access timely care. For Canada's doctors, this is unacceptable. And it's becoming more and more unacceptable to patients as well.

Just over two years ago, the highest court in the land ruled that if the public system fails them, patients have the right to pay for private insurance for medically necessary care. This was a decision made by the Supreme Court of Canada—not by me, not by the CMA.

That ruling dealt with a case in Quebec. Similar—and indeed more compelling cases—are coming soon in Ontario and Alberta. The lower courts will be bound to take guidance from the Chaoulli case.

Patients should not have to sue for access. Governments appear to be in denial that Canadians can-

not legally be forced to wait, suffer, and even die while they wait for health care.

Frustrations with waitlists led me, in 1995, to help establish and become President and CEO of the Cambie Surgery Centre in Vancouver—the first private facility of its type in Canada.

The motivation behind our group was simple. Our services were being rationed. Our patients were being shortchanged. Personally, my operating time dwindled from 22 to just five hours a week. That is 10 hours less than the minimum recommended for competence by the Canadian Orthopaedic Association. I had 450 patients waiting for care.

I went into medicine to manage patients, not to manage wait lists. We built our own place to work because the public hospitals would not let us work there.

We opened during the tenure of perhaps the most ardent NDP government that Canada has ever seen.

Yet, our centre spawned others, and we have become a valuable part of the B.C. health system. As a result, I've been accused by unions, some so-called consumer groups, and even by a single-issue doctors' group of promoting a so-called two-tier, American-style system.

Let me be clear, I am not for an American-style system in Canada.

It is true that I believe in competition. But not the type of unhealthy competition that seems to exist between Canada and the U.S. in health care. As two of the world's richest countries, we seem to be in a race to the bottom when it comes to health. Canada's health system has been ranked 30th by the World Health Organization, and the U.S. was ranked 37th.

Why would anyone copy a system that ranks substantially below ours? I wouldn't! And I don't believe anyone here would. We need leadership from our politicians, not just pandering to the latest poll. Polls are fine when used to figure out what people think. They should not be used

to figure out what we ourselves think. That is called leadership from the rear.

It is time to get to work on answering some of the tough questions that you and many patients ask every day.

Questions like:

- Why are a few selected Canadians—such as workers' compensation patients, RCMP, and many others—allowed to access faster and better care?
- Why have the terms “medically necessary” or “required,” which are used widely in legislation, never been defined? And why are they applied differently across the country?
- How can crutches after breaking a leg or an ambulance for someone who has had a heart attack not be “medically necessary”?
- How can antibiotics prescribed to fight an infection, or painkillers to relieve pain, not be “medically necessary”?
- Why are patients charged for “upgraded” implants and devices by public hospitals, and a host of other items that are prescribed by their physicians?
- And what is the role of private medical insurance in Canada? Let's face it. Some 70 per cent of all Canadians already have it, often labelled extended or supplementary health insurance.
- What about the underprivileged 30 per cent who don't?

Hypocritically, many of those who reject the concept of private insurance have it themselves. I have never heard one of them offer to opt out of their two-tier private plan on moral grounds. So let's not pretend that it doesn't exist. Let's not pretend that it doesn't cover medically necessary services. Instead, let's figure out how to use it better.

Those who speak against private insurance, user fees and co-payments need to recognize they are widespread and deeply embedded in our Canadian system.

We need to act quickly on reform. The Canada Health Act's five principles still provide a solid foundation from which to work, but we must now reframe those principles to recognize today's health-care realities in the context of the 21st century.

The principles were developed over 45 years ago at a time when there were no CT scanners, MRIs, by-pass surgeries, joint replacements and so on.

As we seek to rework the act to reflect today's context, it is interesting to note its basis is the 1961 Saskatchewan Medical Insurance Act of Tommy Douglas.

Three of the eight principles that Tommy Douglas described as essential were omitted from the 1984 Act. Those three principles are: "Effective," "Efficient" and "Responsible." Bringing back these three "lost principles" will help ensure that the system is accountable to patients.

The CMA, under the leadership of my predecessor Dr. Colin McMillan, recognized the challenges of putting patients first in the CMA policy paper Medicare Plus. The report was attacked by critics as "another call for privatization." In fact it was a call to make the system work for patients, not the other way around.

This is another sad example of how efforts to raise the real issues get lost in the clouds of negative rhetoric. So, how then do we move forward in a practical way to help patients?

We need a system that treats health professionals, hospitals and, most importantly, patients, as value centres—not cost centres that consume an annual budget. We must expand the application of market and good business management principles. Our system of block funding, where a hospital receives an annual budget not tied to efficiency or productivity, is unique within the

Organization for Economic Cooperation and Development (OECD). It is bad for management and bad for patients.

The introduction of patient-focused funding with incentives or reward programs will encourage hospitals to become more efficient and more service-oriented. Patients will become a source of revenue, not a cost. Dollars would follow the patients.

The elimination of wait times will save governments money. Governments need to understand that fact. Elimination of wait times will also open up new opportunities.

For example, consider that the world's biggest consumers in the \$40-billion medical tourism business are Americans. This business has doubled in size this year, as half a million Americans travelled abroad for care. They went to places like Thailand, India, Europe and Russia.

By changing our focus, we too could soon tap into that market and reap the rewards for our public system. This is a potentially massive new industry for Canada. A prerequisite is the elimination of our own wait lists.

Since Canada has virtually no non-government hospital infrastructure, the potential income from medical tourism will benefit public hospitals and unionized hospital workers. Naysayer union leaders need to reflect on this matter.

It will not surprise any of you to learn that I do support an expanded role for the private sector.

Again, let me be clear. Canada's doctors believe that access to quality health-care services must be available to all Canadians based on need, not ability to pay.

We also accept that if certain services can be delivered better, faster, and at less cost in the private sector, then the private sector must be engaged. Governments have a moral and fiduciary duty to use taxpayers' resources wisely.

The public/private debate in this country is, in my judgment, largely irrelevant. Much of the negative rhetoric is simply about defending unionized jobs. I

understand why union-funded groups, such as various so-called health coalitions, continue to advocate for their members.

These groups may label themselves as health advocacy groups, but in my mind, they are not. They are, pure and simple, union lobbyist groups, fighting for the rights of their members. That is understandable. It's their job to advocate for union workers.

However, as doctors, our job is to fight on behalf of our patients.

Right now, the single most important factor in improving the system for patients is addressing the extreme shortage of physicians, nurses and other health-care professionals.

In 1970, when public insurance was first fully applied to physician services in Canada, we ranked in the top four among developed countries in the number of physicians per capita. We now rank a lowly 24th. Each year, between 1993 and 2004, the equivalent of two full medical schools of graduates has left Canada.

Fifty per cent of all newly trained orthopaedic surgeons and neurosurgeons leave within five years of graduation. They leave because we can't offer them the resources they need to work. Doctors graduate with average debts of \$160,000, and are forced to factor in their debt as they make career choices. In order to reach the OECD average of three physicians per 1,000 people, we would need 26,000 new physicians in the system right now!

Now, counter that with the reality that demand for doctors in the U.S. is about to increase dramatically. Every U.S. presidential candidate is promising to provide insurance for the more than 45 million uninsured. The previously uninsured will use their insurance. A major supplier for the U.S. demand in medical manpower will be Canada.

Health care is facing a demographic crisis as our society ages and we see more and more chronic diseases. The over-65 population in Canada stands at its highest-percentage level in history, while the current under-15 population is at its lowest. There will be an astounding 43-percentage increase in the over-80 population in Canada by 2011, and their health-care costs will create an economic crisis.

In considering just one operation in my specialty—knee replacements—a projected 670 per cent increase will occur. How will we fund these operations, and where will the necessary doctors come from?

We must achieve self-sufficiency in the number of health-care professionals we train.

Ladies and gentlemen, we are at a pivotal point. We are just days away from a Speech from the Throne in which the federal government will set out its priorities for the next session of Parliament.

It is vital that the federal government invest in making the health of Canadians a priority by targeting action and commitment in five key areas.

The first is to completely solve the wait time and access issue. The establishment of wait-time benchmarks and wait-time guarantees were important first steps. A good start. But not enough. Wait-time guarantees must not mean guaranteed waiting. We must reject waiting periods that exceed all ethical and medical standards. They do not exist in many other countries with universal care, and they need not exist here in Canada.

Waiting patients deteriorate as they suffer physical, emotional and financial hardship. Canadian and international studies have proven that wait lists impose a huge financial burden—many billions of dollars—not just on the health-care system, but on the economy in general.

Governments need to understand that it will be cheaper to have no wait lists. Their elimination will prove a worthwhile investment. Spend that money now, not

over a 10-year period. Patients will reap the health benefits, taxpayers will reap the financial benefits, and governments will reap the political benefits.

Second, we must become self sufficient in the supply of health-care professionals. Up to five million Canadians do not have a family physician. As our population increases and ages, demand will rise. We must act now.

Third, the federal government should appoint a federal Child Health Advisor to provide guidance on improving the health of Canada's children. Hundreds of thousands of children are among those on wait lists. Too many Canadian children face significant challenges in growing up healthy. Preventative measures generate their greatest rewards in children's health.

The rewards from prevention are there, but they are not as great in us older people. Keeping us older folks alive longer and healthier is desirable but will add to the demands of our system. As Redd Fox said, "Health nuts are going to feel stupid someday, lying in bed, dying of nothing."

Fourth, we ask that the federal government create targets for achieving significant reductions in illnesses associated with pollution and climate change. The environmental concerns that worry Canadians the most are those related to health.

Finally, the government must support innovation and technology in health care. Investment in information technology will lead to better, safer and cheaper patient care. Studies show we rank at the bottom of the G8 countries in access to many new technologies.

We spend a third of the OECD average on IT in our hospitals. This is a significant factor with respect to our poor record in avoidable adverse effects. I'm going to end my remarks by going back to where we started: We must put patients first.

Sounds good—but how do we get there? We need not just visionaries to recognize and see, but pioneers to actually do what is right. We need action.

We must reject empty rhetoric, and reward renewal.

We can build a better system—one with enough resources to meet the needs of patients, be they children, those living in rural Canada or those with a chronic condition.

We can generate those resources through savings achieved by the introduction of market principles into the acute-care system.

We live in a very rich country. Canadians should not and need not wait for access.

Governments have, for too long, looked upon health care as a “Black Hole” draining its resources. We must all reject that view and understand that health spending can be an investment. An investment that will pay massive dividends for the future.

To our Prime Minister and to governments across the country I say: “The job is not done.”

In fact, it has barely started, but we have the opportunity to fix our system right now. Governments must show leadership, now. The doctors of Canada are committed to the cause of renewing health care in Canada. The clock is ticking, and time is not on our side. Our system is not working well, but it can be fixed. Let’s fix it.

Thank you.

The appreciation of the meeting was expressed by Jo-Ann McArthur, President, Jo-Ann McArthur Strategies Inc., First Vice-President and President-Elect, The Empire Club of Canada.



October 24, 2007

Moya Greene

President and Chief Executive Officer, Canada Post Corporation

CANADA POST—PRESENT SUCSESSES AND FUTURE CHALLENGES

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Diana Conconi, Senior Vice-President and Partner, Fleishman-Hillard, and Director, The Empire Club of Canada; Eliza Leitch, Grade 12 Student, Parkdale Collegiate Institute; Rev. Bill Middleton, Minister, Armour Heights Presbyterian Church; Marc Courtois, Chairman of the Board of Directors, Canada Post Corporation; John Prato, Managing Director, Equity Capital Markets, TD Securities; Verity Craig, Principal, Hays Executive, and Director, The Empire Club of Canada; Dr. Barry Carin, Associate Director, Centre for Global Studies, University of Victoria; and Ken Smith, Managing Partner, SECOR Consulting.

Introduction by Catherine Swift

In doing a bit of research on Canada's postal history, it was surprising to find that the first recorded instance of someone being paid to transport letters in Canada was in the late 1600s as one

entrepreneurial individual started up a business delivering mail. By 1723, a regular service between Québec and France was created, and letters were sent free at that time.

In 1753, Benjamin Franklin and William Hunter were appointed the first Deputy Postmasters General in North America and the following year saw the establishment of the first Canadian post office, located in Halifax. In the late 1700s mail was delivered by stagecoach every two weeks, and the first postal convention between Canada and the U.S. was struck, with each country agreeing to accept the prepaid correspondence of the other.

By the mid-1800s, mail was being delivered by train and service became more frequent, and stamps were introduced. In 1874, red was adopted as the standard colour for mailboxes in the British Empire, with the colour known as royal red. It wasn't until 1908 when rural mail service was introduced for the first time.

In recent years, postal services around the world have undergone enormous change to adapt to technology and especially the advent of the Internet. While expectations might have been that postal services would be much less in demand in an Internet world, that has not been the case.

Our speaker today, Moya Greene, has had a varied career in both the public and private sectors. She started her public service career in 1979 as an Immigration Adjudicator and went on from there to senior policy positions in the Department of Labour and the Privy Council Office. She has also managed a number of federal-provincial files in the capacity of Director of Inter-Provincial Affairs in the Department of Consumer and Corporate Affairs and later in the Office of Federal-Provincial Relations. As Assistant Deputy Minister in the Department of Transportation, she was responsible for broad reform of the transportation system, the privatization of CN, the deregulation of the Canadian airline industry and the commercialization of the Canadian port system.

In the private sector, Ms. Greene has been a senior officer of three of Canada's largest multinational companies where she held the positions of Managing Director, Infrastructure Finance at TD Securities Inc., Senior Vice-President, Retail Products at CIBC and Senior Vice-President, Operational Effectiveness at Bombardier. She was recognized in 2003 by the National Post as one of Canada's top-100 most influential women.

Ms. Greene was appointed President and CEO of Canada Post on May 16, 2005. In this role, she sits on the Board of Directors, chairs the Strategy and Priority Setting Committee and is responsible for managing Canada Post's vision, strategies, priorities, long-term goals and policy framework targets. She also chairs the Management

Board, and sits on the Board of Purolator Courier, a subsidiary of Canada Post. Please join me in welcoming Moya Greene.

Moya Greene

Hello everyone, and thank you for inviting me here in Toronto today at the Empire Club. I always appreciate the opportunity to talk to you about Canada Post and the changes we see on the horizon.

I have been a resident of Toronto for many years and have a clear understanding of the vital role played by both the city and the province in driving the Canadian economy. Make no mistake, Ontario's success is the foundation of our overall national success.

Canada Post has a major presence in Toronto. We have two of our largest facilities where some 2.5 billion pieces of mail are processed annually. There are 14,000 employees in the GTA alone, and the province-wide total is 27,000. Among our commercial and retail customers, the province generates \$2.9 billion in revenues. Clearly, the economic impact is dominant.

I want to take you back to the era of our transition into a Crown corporation. Since then, we have amassed as many successful achievements as the challenges now facing us in the future.

First, let's look at our remarkable transformation. From a government department operating in the red, with very unhealthy labour relations, we have evolved into a Crown corporation firmly focused on customer service. We have now earned a profit in each of the past 12 years and we have paid more than \$900 million in dividends, capital returns and income tax over that same period, to our shareholder.

We have also made great strides with our brand.

Nationally, a survey conducted earlier this year by the respected polling firm Strategic Counsel found that Canada Post is "the most trusted federal institution" in Canada. More trusted than Parliament, more trusted than

the federal public service, more trusted than the military, more trusted than the Supreme Court of Canada.

The president of that firm later told me that Canada Post was thrown in as an afterthought, as they were actually tracking public opinion about the RCMP. Everyone was surprised. But as CEO of Canada Post, I was not surprised.

I get thousands of letters every month from people all across this country telling me about the lengths the great men and women of Canada Post go to each day in all kinds of weather to get the mail out.

Earlier this year, the tenth Commerce-Léger Marketing poll ranked Canada Post third among the 150 most admired businesses in Quebec. We beat out such impressive companies as Toyota, Sony and Tim Hortons. We take great satisfaction in this ranking.

I would welcome a similar survey here in Ontario.

We have had a wonderful few years of recognition. And, for the second consecutive year, we have been named in a national survey by Maclean's magazine as one of Canada's top-100 employers. To see our brand regaining this high regard in such a short period of time is a tribute to the 72,000 men and women of the Canada Post group of companies.

We have garnered these distinctions just as we celebrate our 25th anniversary as a Crown corporation. The contrast between what we were back then and what we have now become could not be more striking. I am certain that some of you still recall the terrible state of affairs in which we found ourselves.

Let me remind you of the political context back then: when Canada Post Corporation was created in 1981, with the unanimous support of all political parties in the House of Commons and the union leaders of the day, the country's postal service was an inefficient government department operating at a loss.

The creation of Canada Post as a Crown corporation was a direct result of the political interventions required

to settle a series of labour disputes and national service disruptions. And just as important as solving our problems with Canadian Union of Postal Workers (CUPW) was the need to set our sorry financial house in order.

It took eight years for the new management structure to generate our first profits, but we have been financially independent ever since. In addition to constantly improving our delivery service and performance, we have also made progress in our relations with CUPW.

I am proud to tell you that this year, we managed to negotiate a new four-year contract with CUPW, which represents our operations employees. This new contract was signed without a service disruption, out of the media spotlight and with little publicity. The public and our customers, for the most part, were not even aware that the previous contract had expired.

This is a far cry from the negotiations of the past, which too often were ugly media spectacles. They cost Canada Post millions in lost business and respect and we were characterized as having the worst labour relations situation in the country.

What we have achieved during these negotiations is a strong platform on which to modernize the company. And much needs to be done in that domain. Let me explain.

Every business day, Canada Post delivers some 40 million pieces of mail and parcels over one of the largest geographic expanses on the planet, with some of the most volatile weather conditions. We manage to do this at the third-lowest rate among developed countries, and we do this on time 96 per cent of the time, as monitored by an independent third party.

In many respects, our company is just as much a part of Canada's infrastructure as its highways, bridges, airports and shipping lanes. Canada Post provides a vital communication link in this country. It enables businesses and organizations of every size to conduct transactions that promote their economic success.

Early in the 20th century, the post office was the most essential link between individuals and families across Canada, but early in this century, much has changed.

We are less crucial to these personal links now that most of these exchanges occur over the telephone and the Internet. However, Canada Post now plays its most important role in the area of economic communications. Approximately 75 per cent of our revenues today come from the commercial sector.

As with all infrastructures, success is dependent on revitalization and modernization. There is now a pressing need to begin updating Canada Post's physical and electronic network. In fact, this upgrade should have been done a long time ago. In recent years, most postal administrations in the industrialized countries have invested in their system to serve customers better and provide a safer, healthier and more efficient work environment.

In the developed countries where this renewal was carried out in the normal course of operations, profits have grown, relations with employees have become closer and success in a more competitive environment has been assured. Three such countries are Austria, Sweden and Germany. In countries that have failed to update their postal system, just the opposite is true. In the United Kingdom, the post office is operating at a loss, plagued by almost constant labour disputes, cannot keep pace with competitors in its market, and worst of all, lacks the capacity to modernize. We at Canada Post have a truly outstanding opportunity at this very moment.

Most of our sorting plants are obsolete. A few have been in service for 40 years and some actually go back as much as 70 years! These plants are located in busy downtown cores, near railway stations that no longer handle the mail, and far from the highways and airports that do move the mail. Several of these facilities are poorly adapted to handling mail. They resemble multi-storey office buildings more than processing plants. They are

poorly adapted to ideal logistical streams. In 2007, we continue to sort a lot of mail by hand. Our equipment dates back five generations.

The technology designed to facilitate our activities is not integrated and is actually prehistoric. In many cases, the computers used by our employees have software no longer supported by the manufacturers, what I might call “state-of-the-ark” technology.

The equipment and technology available today can sort every piece of mail right down to the specific point of call: your address. Yet our letter carriers hand sort the mail they must deliver that same day. We are losing the ability to maintain this equipment and technology.

These plants were designed before the era of ergonomics and environmentally friendly buildings. We therefore are far removed from the ideal situation in terms of health, safety and environment.

So in some ways, getting out and delivering 40 million pieces a day represents something of a small miracle, given the current state of our plants and equipment. It requires our 72,000 employees—the sixth-largest work force in Canada—to at times perform some super-human feats to get the mail to more than 14 million addresses. And it comes at a cost, including more than 8,000 injuries a year and one of the highest modified duty and absenteeism rates in the country.

When I joined the Canada Post team in 2005, I had a clear goal in mind: to create a modern post office, a flexible business firmly focused on the customer, and thus become a leader in postal efficiency. We reorganized our business to focus entirely on our three key operating sectors: Transactional mail, which includes invoices, notices and statements, Parcels and Direct Marketing. The new structure placed our customers at the centre of all our operations.

One thing that has changed since our conversion into a Crown corporation is the fact that most of our operations

now face competition. We must vie against the world's largest logistics companies, such as FedEx and UPS. In direct marketing, our competitors are telecommunications giants such as Bell, Rogers and Quebecor.

To advance even further in its transformation into a modern post office, Canada Post must now invest much more in its physical and electronic network. The people of Canada deserve an unmatched postal infrastructure, and we can only achieve this if we invest in efficient, safe, environmental and sustainable infrastructure, in sophisticated technology and in new, ergonomic equipment.

This investment, which entails \$1.9 billion in expenditures, will place Canada Post on par with virtually every other postal administration transitioning to the industry's best practices, including sequential sorting and fully automated mail-handling systems.

This change will also support renewal of Canada's largest corporate fleet. We operate almost 7,000 vans and trucks. During modernization, we will have the opportunity to capitalize on other modes and technologies that are fuel-efficient, environmentally friendly, and more ergonomic for mail delivery by our carriers, especially in rural areas.

Canada Post will not only remain competitive, it will also become a supplier of preferred logistical and messaging solutions to Canadian customers, by offering competitive rates and better products and services.

In the very near future, we hope to tell you about our plans in greater detail. One thing is certain, however, we must move forward! If we did not, we would fail in our responsibility to our customers and all Canadians.

We have a unique opportunity to do this now. We are facing the challenges of an aging work force. More than one-third of our employees will retire in the near future. We therefore will synchronize our plans with the pace of retirements.

We know our challenges also come from the marketplace. Just think for a moment about the rapid evolution

of technology, the role of the Internet, and its impact on the communications market worldwide. To deal with globalization and evolving technology, virtually all industries have had to adapt their business models. Postal and delivery services are no exception.

Our future includes keeping ahead of the curve, and in many cases, ahead of the virtual curve online. Did you know, for example, that when you type in the words “direct mail” on Google, the second reference to appear leads you to the Canada Post Web site?

I can also tell you that Canada Post will soon be launching “Maple Grove,” a virtual city in the existing online community of Second Life. This is the popular virtual community inhabited by more than eight million registered users worldwide and is part of a new social networking trend that has caught the attention of marketers. More than 282,000 Canadians already “reside” in Second Life. This holiday season, online shoppers will be able to visit the 3-D virtual stores of Canada Post’s retail partners, shop and order real gifts and merchandise. This is truly exciting.

This adaptation has brought many challenges, but also a world of opportunities. Canadians are ready to compete in a global market, and need a strong Canadian postal service to help them succeed.

Over the past 20 years, technological change and globalization have drastically affected the postal market. The value chain has become fragmented. Many private-sector companies are helping our customers prepare mail—and have entered the Canadian postal market in areas that were once the domain of Canada Post. Their business model includes exploiting postal rates of other countries and the contravention of Universal Postal Union rules and Canadian law.

In 1981, Canada Post was given a small and shrinking monopoly or “exclusive privilege” to collect and deliver letters less than 500 grams. What does that mean?

Exclusive privilege is the market reserved, by law, for Canada Post, for one purpose and one purpose alone. And that is to allow the corporation to generate sufficient revenue to pay for the universal service and other policy obligations that we alone have in the Canadian market.

“Re-mailers” collect mail in Canada destined for locations outside Canada. Many of these “re-mailers” are owned and operated by, or are closely associated with, foreign postal administrations. Many of these are now private-sector companies. They are now here in Canada looking for new markets and Canada seems to them like a good possibility.

We are proud to take on the obligations that the Government of Canada has entrusted to us. Some of these restrictions and obligations do not apply to our competitors. A cap on our basic letter mail rate limits increases to two-thirds of the annual inflation rate. Our universal service agreement requires us to deliver mail to every address in Canada every day, and the number of addresses is growing by 240,000 a year. At the same time, the average number of revenue-generating items delivered to each address is beginning to decline.

Even today, most consumers still prefer to receive their messages through various channels, in both hard copy and electronic format. This creates a growing need for multi-channel solutions that address the needs of commercial customers and, in turn, of their own customers. If we want to remain relevant in the future, we must forge solid links with senders and receivers, whom we connect through our physical and electronic networks.

In the past, I have worked to deregulate other sectors of the economy. The economic literature shows clearly that where markets are open, consumers have more choice. Fair competition allows many new entrants to build innovative new businesses. It forces existing players to up their game, become more efficient or face a loss of their business to the new entrants.

Within the postal world, deregulation has produced some successes and some disasters. The role of the incumbent post is to provide customer service to the people within the country it serves. People expect to get their mail on time. That is our responsibility as is the need to stay profitable. What are the differences between successful deregulation and failure? Only two.

Successful deregulation happened gradually, allowing the necessary time to adjust. And it was accompanied by new regulatory freedoms, which allowed the incumbent post to compete fairly.

Canada Post now competes effectively in parcels and direct marketing. We can compete effectively in letter mail too, which is currently the area of exclusive privilege. But we need to modernize and to receive the same freedom to build a successful business that new players have when they enter our markets.

It is our pleasure to serve you as customers, and it has been my pleasure to speak to you today about a great company, Canada Post. Canada Post, a company that now generates \$7.4 billion in income each year.

These are the fundamental challenges we must meet on our path toward a modern postal service. You can rest assured that we at Canada Post will continue to play a key facilitating role in the Canadian economy by providing the best service possible to our customers and to all Canadians, through an efficient and affordable postal system and through products and services that always meet the needs of our customers.

Thank you.

The appreciation of the meeting was expressed by Verity Craig, Principal, Hays Executive, and Director, The Empire Club of Canada.



November 9, 2007

A joint meeting of The
Empire Club of Canada and
The Hong Kong-Canada
Business Association

Frederick Ma Si-hang

Secretary for Commerce and Economic Development,
the Government of the Hong Kong SAR

BUSINESS OPPORTUNITIES IN HONG KONG

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Barry Macdonald, Chairman, Federation of Hong Kong Business Associations Worldwide, Immediate Past National Chair, The Hong Kong-Canada Business Association, and Partner, PricewaterhouseCoopers, Vancouver; Rev. Dr. John S. Niles, MSM, Senior Minister, St. Andrew's United Church, Markham, and Immediate Past President, The Empire Club of Canada; Ana Paula Pacheco, Manager, User Acceptance Testing, Customer Operations-Operations Planning and Support, MTS Allstream Inc.; Harry T. Seymour, President, Waterston Financial Inc., Past President, The Empire Club of Canada, and Former Partner of Fred Ma at Pitfield Mackay Ross and Dominion Securities, now part of RBC Financial Group; Madam Zhu Taoying, Consul General, Consulate General of the People's Republic of China in Toronto; Derek Lee, Chairman, Canada Hong Kong Parliamentary Friendship Group; The Hon. Michael Chan, MPP, Minister of Citizenship and Immigration, Government of Ontario; Frank Monteiro, President, The Hong Kong-Canada Business Association; Doug Morris, Owner, Morris

Glass/Humidity Solutions, and Director, The Empire Club of Canada; Helio Dias, President, Solid Wall Concrete Forming Ltd.; Olivia Chow, Member of Parliament for Trinity-Spadina, NDP Immigration Critic, and Critic for Children and Youth; David Matheson, Honorary Advisor, Federation of Hong Kong Business Associations Worldwide (FHKBAW); Bassanio So, Director, Hong Kong Economic and Trade Office Canada; and Anthony S. Fell, Chairman, RBC Capital Markets.

Introduction by Catherine Swift

The history of Hong Kong is long, rich and colourful, through the various famous dynasties, opium wars, occupations by other countries to its current status of Special Administrative Region of the People's Republic of China. Modern Hong Kong is one of the world's major trade and financial centres. There was much debate about the fate of Hong Kong 10 years ago when it was handed back to China, but despite some political challenges Hong Kong has maintained its vibrant economy and role as a financial hub linking Western economies to the rapidly growing Asian countries.

One of Hong Kong's most important roles at present is that of an agent of modernization to mainland China, as China's impact on the rest of the world becomes ever more overwhelming.

We are fortunate to host Frederick Ma, Secretary for Commerce and Economic Development in the Government of the Hong Kong SAR. After graduation from university, Mr. Ma joined the Chase Manhattan Bank and subsequently worked for the bank in Hong Kong, New York and Toronto. His career in the financial services industry also includes key posts in Pacific Century Cyberworks Ltd., JP Morgan Private Bank, Kumagai Gumi (HK) Ltd., Pitfield Mackay Ross and RBC Dominion Securities. His Canadian experience was extensive and led to him becoming one of the best-known bank analysts in Canada.

He first joined the Hong Kong government in 2002 as the Secretary for Financial Services and the Treasury, and is currently the Secretary for Commerce and Economic Development. He has also held a number of public service positions, including serving on the Hong Kong Exchanges and Clearing Limited and the Hong Kong Securities and Futures Commission. Given the immense influence of China on our global economy, we are fortunate to have such a highly ranked official with such extensive Canadian experience to speak to us today on how a new direction for Hong Kong means new opportunities for Canadian business.

Please join me in welcoming Frederick Ma.

Frederick Ma

Distinguished guests, ladies and gentlemen:

I am delighted to be back in Toronto. This is my second visit here in about six months. In fact, Toronto has been like a second home to me ever since I worked here for a few years in the 1980s. I was fortunate to make a lot of good friends during those days, and I am delighted to see some of them here today. They look as young and energetic as ever, just like Toronto!

Today, I hope to give you all some very good reasons to pay us a visit in Hong Kong in the near future. For a start, Hong Kong and Canada have much in common in a wide variety of areas, spanning business and commerce to social and cultural ties. We also share many of the same philosophies that guide the continuous development of our societies. We both believe in open economies and free markets. We attach great importance to the rule of law and freedom of speech. We practise acceptance and tolerance and both our cities respect cultural, ethnic and religious diversity.

It should come as no surprise to anyone that Hong Kong and Canada have established close economic relations over the years. Last year, Canada was our 18th-largest trading partner, with total trade of over Cdn\$5 billion. There are more than 80 Canadian companies in Hong Kong, 46 of them being regional offices or regional headquarters.

I thank you all, especially our hosts today, the Hong Kong Canada Business Association, for your continuous strong support to Hong Kong. This year we are celebrating the 10th anniversary of the establishment of the Hong Kong Special Administrative Region. Reunification was the biggest political and legal challenge our city has faced. There had been other less welcome challenges during the past decade such as SARS, two outbreaks of Avian influenza, the Asian financial crisis, a prolonged period of

deflation and high unemployment. As you know, Hong Kong has always been up to a challenge. Today, our stock market is trading at almost record high levels, unemployment is at a nine-year low and the current high-growth, low-inflation era of the past few years is our best economic performance in recent history. Throughout the ups and downs, Hong Kong has remained the freest economy in the world. It has been rated number one for over a decade under the World Economic Freedom Index published by Canada's Fraser Institute. We are also among the most competitive economies, ranked number three by the IMD World Competitiveness Yearbook 2007. These attributes help to make Hong Kong the preferred base for international companies in Asia, with over 3,800 foreign companies establishing regional operations in Hong Kong.

In typical Hong Kong fashion, we have cleared each hurdle one after another over the past decade, and we have emerged stronger for the experience. There will no doubt be more bumps along the road. So it is in times like the present, when our economy is doing well, that we should start preparing for the inevitable difficult patches ahead.

One thing we have been doing for some time is leveraging on the rapid economic development of Mainland China. This has helped to put Hong Kong on the threshold of a new era. We are also plotting a course to make the most of the new opportunities ahead of us.

Last month, our Chief Executive outlined a new direction for Hong Kong's development in his policy address. He set out the vision, and more importantly, action plans, to equip Hong Kong with the necessary hardware and software to make the most of the opportunities in a new era of "progressive development." At the heart of this new direction is the promotion of economic development, as well as community development and social harmony.

I want to talk about what this new direction means for our international partners from countries such as Canada,

and how you can also capitalize on these new opportunities. I believe the well-established ties between our two economies will give Canadian companies a head start over their rivals in tapping the Asian market, including China.

Infrastructure Development

Our Chief Executive pledged in his Policy Address to push ahead with 10 large-scale infrastructure projects covering roads, railways and urban planning. Some of the projects are within Hong Kong, others involve cross-boundary collaboration and will improve our transport links with the Mainland. We estimate that these 10 projects will generate an added value of more than Cdn\$12 billion annually to our economy, and generate some 250,000 additional jobs.

Hong Kong provides a level playing field for all businesses, local and foreign. We hope that more overseas enterprises, including Canadian companies, will lend their expertise to our infrastructure development and take part in the bidding process for some of the projects.

IT and Creative Industry

IT and creative industries represent another area where Hong Kong and Canada can strengthen co-operation in a win-win situation. Canadian high-tech companies, such as Nortel and Research in Motion, are among those doing well in our part of the world. They have brought the latest communication products to Hong Kong and the Mainland, as well as to other parts of Asia. We are also proactive in commercializing and adopting wireless and mobile technologies, including Radio Frequency Identification (RFID). RFID has been under testing at Hong Kong International Airport to track baggage. More recently it was introduced into several shops to help customers with their choices and improve supply chain efficiency.

Our industry-support organizations, including Cyberport, will be happy to work with their Canadian counterparts to advance the markets in both places. I encourage more Canadian companies in these high-tech industries to expand their business in Hong Kong.

On creative industries, our Chief Executive announced development plans to foster our position as a creative capital in the region. The government will establish an overarching steering committee, led by the Financial Secretary, to draw up an overall strategy. This will be done in collaboration with industry representatives, NGOs and professional bodies. We welcome input from Canada's creative talent on the best way forward.

Financial Services

We are also striving to do more and better in areas where Hong Kong already has a lead in the Asia-Pacific region. Reinforcing our position as a global financial centre is one of our top priorities. In fact, our nation's economic blueprint, the 11th Five-Year Plan, reaffirms Hong Kong's status as China's international financial centre, and supports the development of our financial-services industry. Our strategy has concentrated on the introduction of new financial infrastructure and more engagement between the financial systems in Hong Kong and on the Mainland. Last year a Qualified Domestic Institutional Investor (QDII) scheme was launched to allow Mainland banks and insurers to invest in Hong Kong and overseas. The scheme was expanded this year to include fund management companies and securities firms. Also this year, Hong Kong became the first place outside the Mainland to have a Renminbi bond market. We can expect more capital-raising initiatives to come on-stream in the near future.

Bi-lateral Trade

Earlier I mentioned the strong trading relations between Hong Kong and Canada. The figures are encour-

aging, but I believe we can do more to develop this relationship further. I want to touch on a couple of areas where we can aim higher, think bigger and achieve more.

We have yet to fully utilize the opportunities arising from the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the Mainland. This free trade agreement provides Hong Kong goods and services with WTO-plus market access opportunities in the Mainland. Currently, CEPA covers 27 service sectors including banking, insurance, legal, logistics, tourism and management consulting services. Another 11 service sectors will be added to the list from next year. Because Hong Kong has a nationality neutral policy, foreign-owned or controlled companies incorporated in Hong Kong can also enjoy the full benefits of CEPA. Since 2004, about 1,100 companies have signed up to CEPA. Almost half (about 45 per cent) are foreign firms. According to our figures, six of these enterprises have their roots in Canada. There is plenty of room for more to join. And remember that CEPA applies nationally, to all of China and its 1.3 billion people, so just imagine what it could do for your customer base!

Although many of the major Canadian corporations may have already established a foothold in the Mainland, we should not forget the smaller enterprises. In fact, about 98 per cent of all companies in Hong Kong are small and medium enterprises (SMEs) and they employ roughly half the private-sector work force. SMEs are a vital part of the fabric in our community. There are plenty of support groups to help these companies get off on the right foot in Hong Kong, without having to go through the long and sometimes painful process of trial and error before finding their niche in the market. And because of our externally oriented economy and easy access to regional markets, it doesn't take long to find out if your business will become a hit! Be assured, our deep pool of expertise, knowledge of the China market and well-educated and

eager work force will be on your side. As an international convention, exhibition and tourism capital, you don't have far to go to showcase your products. There is a constant stream of potential buyers from the Mainland and throughout the region looking for the next big thing to hit the market.

Access to market intelligence and making the right contacts can be a problem for many executives entering a new market, and that includes the China market. Here is where bodies like the Hong Kong Trade Development Council (TDC) come in. The TDC has been doing a lot of work in this area by organizing trade missions to Hong Kong and conducting match-making exercises between companies. Since the start of 2006 there have been about 50 Canadian trade missions organised by the TDC in Toronto, with over 10,000 delegates to Hong Kong. In the annual Hong Kong Forum organized by the TDC last month, among the 350 participants from 21 countries, the Hong Kong Canada Business Association had 100 delegates. It was no contest when it came to handing out the Best Attendance Award!

Apart from the TDC, other members of the "Hong Kong family" in Canada, including the Hong Kong Economic and Trade Office, Invest Hong Kong, Tourism Board as well as the Hong Kong-Canada Business Association, all stand ready to contribute. I was pleased to see last year that the Ontario Chamber of Commerce formed a strategic alliance with the "Hong Kong family." I am confident this will encourage more companies from this province to use our city as a base for their regional operations in Asia.

Environmental Protection

Finally, I want to bring you up-to-date on our environmental protection strategy. Improving air quality and promoting "green" city living is a top priority for the Hong Kong government. It is also a key part of our goal of "progressive development" that I mentioned earlier. We want

Hong Kong to be not only a great place to work, but also to live, for generations to come. On the local front, we have deployed a multi-pronged approach to protecting the environment. Some of the key issues have involved replacing older diesel vehicles with more environmentally friendly models, converting virtually all (99 per cent) of the city's taxis to run on Liquefied Petroleum Gas (LPG) and raising public awareness about energy consumption and other environmental issues. We are also well aware that most of the bad air in our region, about 80 per cent, comes from across the boundary. So we are working with Hong Kong businesses based in the Pearl River Delta region to encourage cleaner production techniques. We have also set ambitious joint emission-reduction targets with the neighbouring provincial government in Guangdong by 2010. There is still a long way to go but I believe we are on the right track. The first Canadian environment trade mission to Hong Kong, jointly organized by the TDC, the Canadian government and the British Columbia Environment Industry Association just last week was a good step in the right direction. I look forward to more exchanges of this kind in the future. They will help us to improve our quality of life as well as generate business opportunities for Canada and Hong Kong.

I hope I have been able to give you a clear picture of the role Hong Kong is playing within the international business community today, and how we can further improve ties between our two economies to grasp the opportunities ahead of us. In the context of the Mainland's booming market, I recall Premier McGuinty's remark made during his trade mission to Hong Kong in 2005. He said, "We know China's economic boom is often fuelled by Hong Kong's savvy, Hong Kong's expertise, and Hong Kong's capital." And I add, who else, if not Hong Kong, can you count on in your China plan?

These are exciting times for Hong Kong. Next year we will host the equestrian competition for the 2008 Beijing

Olympics. Consider this an invitation to visit Hong Kong and help us celebrate the Olympic spirit.

Thank you.

The appreciation of the meeting was expressed by Barry Macdonald, Chairman, Federation of Hong Kong Business Associations Worldwide, Immediate Past National Chair, The Hong Kong-Canada Business Association, and Partner, PricewaterhouseCoopers, Vancouver.



Annie Kwok, Vice-President, Corporate and Community Relations, Hong Kong-Canada Business Association-Toronto Chapter, Frederick Ma Si-hang, JP, Secretary for Commerce and Economic Development, The Government of the Hong Kong SAR, and John S. Niles, Senior Minister, St. Andrew's United Church Markham, and Past President, The Empire Club of Canada.



November 16, 2007

The Hon. Monte Solberg

Minister of Human Resources and Social Development,
Government of Canada

NEW APPROACHES AND PARTNERSHIPS TO MEET THE LABOUR MARKET CHALLENGES OF TODAY AND TOMORROW

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Lisa A. Baiton, Vice-President, Government Relations, Environics Communications Inc., and Second Vice-President, The Empire Club of Canada; Akim Burke, Senior Student, Westview Centennial Secondary School; Reverend Vic Reigel, Honorary Assistant, Christ Church, Brampton; Howard Shen, President, Chinese Professionals Association of Canada; Heather Carrey, Division Human Resources Manager, John Deere Limited; Rick Byers, Managing Director, BMO Capital Markets; Heather C. Devine, Associate, Gowling Lafleur Henderson LLP, and Director, The Empire Club of Canada; Jeff Graham, President and Chair, Biotechnology Education Resource Centre; Linda Shales, Vice-President Human Resources, Nycomed Canada Inc.; and Patrick Sullivan, President, Workopolis.

Introduction by Catherine Swift

Back in the mid-to-late 1990s, many pundits were predicting a looming period of massive unemployment, problems finding jobs for the next generation of workers, and we heard dire warnings of how technology was replacing people. You may recall a book called “The End of Work” by economist Jeremy Rifkin predicting a dire future of global joblessness. I remember a joke making the rounds at that time that stated the factory of the future would have only two employees, a man and a dog. The man would be there to feed the dog, and the dog would be there to prevent the man from touching the equipment.

Although Rifkin and his ilk undoubtedly sold a lot of books with their apocalyptic outlook, they couldn’t have been more wrong. Just over a decade later, how things have changed. Massive labour shortages are now the concern of virtually all developed countries around the world, and Canada is no exception. A lot of this has been driven by demographics as we baby boomers age and families are having fewer children. Many skills are also in short supply as professions such as the trades are not as attractive to young people as they were in the past. And although Canada continues to attract a relatively high number of immigrants, those immigrants do not seem to be adapting to our labour market as readily as did earlier waves of immigration. This is a complex problem, and one that is not going to have easy solutions.

Our speaker today will discuss our current federal government’s approach to labour and skills shortages. As Minister of Human Resources and Social Development, Monte Solberg has the challenge of dealing with this issue at the federal government level. He was first elected to Parliament over 14 years ago and has represented the riding of Medicine Hat, Alberta, for five terms. In the last federal election, he won the Medicine Hat riding with 80 per cent of the votes cast.

From his early days in politics on the opposition benches, Monte established himself as a tireless worker and well-informed advocate, notably as Finance Critic. Following the Conservative Party’s victory in the 2006 election, the Prime Minister called on Monte Solberg to serve in cabinet as Minister of Citizenship and Immigration. In January of this year, Monte was asked by the Prime Minister to take on the Human Resources and Social Development portfolio. More recently, he has been appointed to the Cabinet Committee on Economic Growth and Prosperity. The focus for this committee is the sustainability of Canada’s vibrant economy. A critical component within that is the strength of Canada’s skilled labour force. All of the minister’s many responsibilities are made easier as

a result of the enduring support of his wife Deb and two sons Matthew and Michael.

Please join me in welcoming the Honourable Monte Solberg.

Monte Solberg

Ladies and gentlemen, thank you for your warm welcome. I appreciate this opportunity to meet with your members who play a key role in Canada's business world. I see many friendly familiar faces in this room, people I've known for years. And now that we're in government, it's amazing how many of you have told me that you want to take our relationship to that next level.

In a year and a half our government has made great progress on some big commitments, and it has paid off. As you have heard Prime Minister Harper say, our government is clean, our economy is strong and our country is united.

And that's a very firm foundation upon which to consider our future. But before we do that, let me begin with our past.

My family came to Canada at the turn of the last century. My great grandfather Nils left Norway in the 1880s, coming first to North Dakota. Then, he followed the lure of cheap land north to what would become Alberta. Apparently North Dakota was just too balmy for his Nordic blood. At any rate, he and his family built their home near the little town of Riley—not far from Edmonton. He was there, before the gas engine, before electricity and before running water. He was there before Alberta was a province. He cleared the land, built a house, planted crops and he and his neighbours even set up a school so his children could get an education.

I don't know about you, but I can hardly fathom the hardships that he and his family went through to carve out a life, and leave a legacy. But I'm so grateful that he did.

Even more amazing to me is that this is such a common Canadian story. It's about grit, vision, dawn-to-dusk physical labour and courage on a scale that I find almost unimaginable.

These are stories of hard hands and strong backs. In fact, the story goes that for years, potential immigrants to Canada had to first show their hands to the immigration officer to prove they had the hard hands necessary to settle in one of the last frontiers. In those days so much of how you were rewarded had to do with what those hard hands could produce from the raw land.

But today we know it's different. Today, it's a lot less about hard hands and raw land and a lot more about sharp minds and raw talent. Back then, our barriers to success were weather, disease, and the vagaries of nature. Today, our barriers are ferocious global competition and the stunning pace of change.

That's why the key to addressing virtually all our problems as a nation begins with talented people. All things being equal, the greatest competitive advantage a country can have today is a wealth of well-educated people with relevant skills.

Today, Canada's economy is roaring ahead. Our unemployment rate—at 5.8 per cent—is at the lowest rate in 33 years.

Half a million jobs have been created in the past two years alone and almost 80 per cent of working-age Canadians are in the labour force today—a record level.

In many ways, we are enjoying some sunny days right now. Canada has enjoyed strong and sustained economic growth and low unemployment. But let's not turn away from the real challenges on the horizon.

Challenges, like our “mediocre-at-best” productivity performance. Our productivity simply must improve if we ever hope to offset the impact of our aging population.

To do that, we need to develop, retrain and attract hundreds of thousands of highly skilled and innovative

workers. And if we are successful, the rewards will be great. A simple 1-per-cent improvement in our productivity performance would increase our standard of living by \$14,000 per person.

But as I said before our demographics are working against us. Baby boomers are set to retire and our low birth rate means demand for workers will soon outstrip the supply. Consider that for the last 50 years it was our labour force that was the single greatest contributor to our country's economic expansion. Between 1956 and 2006 our labour force increased nearly 200 per cent. But those heady days are long behind us. Going forward, over the next 50 years, including immigration, the labour force is projected to increase by just 11 per cent. Nearly 200 per cent over the last 50 years; 11 per cent over the next 50.

But ladies and gentlemen, we won't have to wait 50 years to see the impact of that trend. It is here today. A recent PricewaterhouseCoopers survey found more than 60 per cent of companies believe a shortage of qualified workers is slowing their growth.

As the B.C. Ministry of Economic Development reports, well over \$100 billion worth of new infrastructure projects are planned or are underway in British Columbia. But many are delayed due to a lack of workers. In fact, the opening of the Cloverdale Trades and Technology Centre at Kwantlen University in Surrey, B.C. was delayed because they just couldn't find enough trades people to finish the job. A trade school that couldn't find enough trades people to finish building the trade school. I'm sure the irony of that is not lost on you.

We're facing a significant shortage of workers across the country. Labour shortages in the West are occurring alongside unemployment challenges in the East. For example, within the next decade, Alberta faces a potential shortfall of 100,000 workers. Estimates are that British Columbia will be short 350,000 workers and that Ontario

will face a shortage of 560,000 workers by 2030. I hear about shortages in every city I visit from coast to coast.

Ladies and gentlemen, our economy is very strong—and very hungry. But as we face these shortfalls, we have to ask the question, “Who is going to be doing all the work?” Our challenge yesterday was finding enough jobs for people. But today it’s different. Today it is about finding enough skilled people for the jobs.

Business wrestles with this problem every day. But in the years to come, if we don’t act, we’ll all feel it. Consider that in Newfoundland, seniors make up approximately 13.5 per cent of the total population. In 25 years that will increase to over 30 per cent. The numbers are almost as high in New Brunswick and they will be a challenge in every part of the country.

Where will we get the doctors and nurses to serve this population? What about engineers, computer scientists and other people we rely on to make our society work? Seventy per cent of the jobs of the future will be high-skilled. Who will fill those jobs? Without those people, who will pay the taxes to support the social safety net?

Having too few skilled workers drives up costs, making it impossible for some people to buy homes. In many places in the West, labour shortages are helping to drive inflation far above the national average—making it very hard for seniors on a fixed income.

This lack of labour is compounded by the fact that 42 per cent of Canadians in the labour force lack the literacy and numeracy skills to cope with new knowledge requirements on the job. They may want to work, but they don’t yet have the right skills. Or, they may already be working, but a lack of basic literacy skills makes it hard for them to get the training they need to contribute to their potential.

That’s not just an immense loss to our economy; it’s also a tragic loss of the potential of thousands of individual Canadians.

According to a recent Statistics Canada study, a 1-per-cent increase in literacy in Canada relative to other countries would produce a \$32-billion boost to our Gross Domestic Product (GDP).

The crux of our problem is that we have too few workers and too few skills to meet demand. I have set out the numbers. I have given you examples, but ladies and gentlemen, I know that it is still difficult for many Canadians to accept that we have a labour shortage.

For so long we have talked about unemployment, and that there just wasn't enough work to go around. But the fact is, right now, even in areas of high unemployment, we lack enough skilled workers for the jobs. This is our challenge, but it is also a glorious opportunity to make things better. It's an opportunity because today, hundreds of thousands of underemployed and unemployed people could develop those skills and fill those jobs.

Which brings me to Advantage Canada—the long-term economic plan introduced by Finance Minister Jim Flaherty last fall. In that document we have set a bold, but achievable, goal: to have the best-educated, most-skilled, and most-flexible work force in the world.

That means that our labour market policies and programs need to focus on giving all Canadians the right training and skills to meet employers' demands. The strength of our economy depends on it. And our social safety net, our tax system, our education system all have to be in harmony with that goal.

In some ways we are doing well. We rank first in post-secondary education graduates among Organization of Economic Cooperation and Development (OECD) countries. But we shouldn't be complacent. We need more graduates in the maths and sciences, and we need them to go on to graduate school.

That's why we also have enhanced support for students. Starting next year, we'll invest \$800 million more per year for our post-secondary education system. That's

a 40-per-cent increase in a single year—an important signal of our belief in the power of education.

But education takes many forms. We need skilled workers of all kinds, and potential workers need skills. That's why our government has doubled the size of the Aboriginal Skills and Employment Partnership—a program that really has produced results. Here's a wonderful success story of a workplace training partnership between government, Aboriginal Peoples and business.

(Video clip text)

[Tim—My name is Tim Willder. I'm working with Simplex-Grennell as a first-year apprentice in sprinkler fitting. Previous to this, I was an equipment operator. That was too hard on my back so I needed to get into something else. This particular job I got through the Trade Winds to Success program. It's an opportunity for Native people to get into the trades. What it gave me was my "foot in the door" into the union, into the company; it gave me my start.

Employer—We hired Tim as a first-year apprentice, after he completed the Trade Winds program. He's worked on a couple of different sites now, and ... we're hoping he'll advance through his apprenticeship. And I'll definitely give some other people a chance to come through the program.

Tim—My cousin found out I was going through it, so she decided to try it as well and today she's in her trade of choice which is carpentry. She seems to be doing quite well. I've got to go through my four years of apprenticeship and once I've completed my four years, I can become a Journeyman.]

I know that many companies are helping Aboriginal people not only get jobs, but also build better lives. Suncor, for example, is investing in Aboriginal people through scholarships, work placement and training with a

strong focus on literacy and career preparation. Syncrude and other companies are doing the same.

Ladies and gentlemen, that reflects enlightened management and I applaud their efforts.

Meanwhile, our new Apprenticeship Incentive Grant is helping more people enter the trades. Take the example of Gary Knox in Saint John, New Brunswick.

(Video clip text)

[Gary—I'm Gary Knox, I work at the Hilton St-John. Before working here, I worked 18 years changing truck tires. I quit the job I was working at with a grade nine education, because I quit in grade ten. I decided to go back to school, get my GED (General Education Development) and advance myself in the cooking trade.

Employer—In the past 12 months, Gary has gone back to school, then he entered the apprenticeship program, and then he got his first and second block. He is a role model for those people to say: "You know what? It's not too late!"

Gary—The government helped me with my block two that year. They implemented a thousand-dollar grant. Basically, I filled out the application, mailed it in, and that was it! I got hired in the kitchen and I've been here ever since. It doesn't matter if you're old or young, you can still learn. At 53, I basically passed grade 12 with a B average! Anybody can do it!]

Ladies and gentlemen, these investments will help us build a competitive advantage and improve our productivity but we'll never get there if we leave some of our most-skilled and experienced workers on the sidelines.

Our government recognizes that many single-industry towns across Canada have been hit by lay-offs. Our \$70-million Targeted Initiative for Older Workers program means we can give older workers in those communities the training they need so they can find new jobs and support their families and our economic growth.

Earlier this year, I also announced the Expert Panel on Older Workers headed by former Senator Erminie Cohen. That panel is looking at ways to give older workers the option of staying in the work force because as Erminie pointed out to me, age 70 really is the new 50. I find that quite encouraging, because that would mean that 50 is the new 30. And I'm looking forward to turning 30 next year. I look forward to her report.

Now, we can't just cherry pick those who aspire to be doctors and technicians. I think we are obliged to help everyone contribute in their way.

Here's how the government's Youth Employment Strategy helped a young woman with a disability do just that so that both she and her employer could benefit.

(Video clip text)

[Cindy—I'm Cindy Doucet. I was 27 when I started working. Before, I'd be on the couch watching TV or sleeping. One day I woke up and said to myself: "I want to work!" So I went down to the DDPC (Digby Disabilities Partnership Committee). I was really afraid.

DDPC staff—The program that we deliver here is called the Youth Skills Link Employability Program. It's a program we provide for youth, ages 15 to 30, who have barriers or disabilities to employment... And we also partner with employers in our area.

Cindy—So I did the program and look where I am. I'm at Walmart, Digby county!

Employer—Cindy's been here for the last year and a half. She helps greet at the front of the store and honestly, Cindy's willing to do anything in any area we need her; she's fantastic.

Cindy—I've got a nice boss, nice friends to work with. I've got a car now; I've got a job now; actually, I've got everything I want now!]

Ladies and gentlemen, too often people with great potential can't get jobs because training programs aren't flexible enough to help them—and we're changing that.

Cindy's story is an example of the inspiring journey from dependence to independence and the great dignity that goes with a job.

Still, we must do more, and we are. One of the most exciting measures taken by our government is a \$500-million-a-year investment in training—\$3 billion over the next six years! This is an enormous opportunity to help tens of thousands of people get the skills and a helping hand they need to step into their first quality job. This includes recent immigrants looking for their first Canadian job, the disabled who just want the chance to prove themselves, and people on social assistance who want nothing more than to better themselves and to support their families.

Our government has also committed an additional \$1.3 billion over five years in settlement funding to help newcomers get the language, literacy and essential skills they need to more quickly join the mainstream of Canadian life. And we have introduced the Foreign Credential Referral Office to fast-track our best-skilled internationally trained immigrants into our workplace.

Ladies and gentlemen, we're facing long-term challenges that require long-term solutions. That's why we're spending more money in training than any government in history. But, we're also aware that businesses need help now to fill thousands of vacant jobs.

Let me give you the example of Alberta where there was a staggering 200-per-cent increase in demand for temporary foreign workers in the first half of 2007 compared to the same period last year.

But it is not enough to just have a program. The program has to work, and it has to work well. So, we continue to improve it. Just last month I announced a pilot project that will slash red-tape in the construction, tourism, hospitality and health-care sectors in British Columbia and Alberta. Before, it took five months to get permission to hire a foreign worker. Now it will take just five days. Ladies and gentlemen, that's progress and I think it's a

pretty clear sign that the federal government is listening to the concerns of employers.

As proud as I am of these initiatives, all of this is only the beginning. Our government can't fix these problems by ourselves, and many of you are pitching in. I love the example of Homeward Bound, a Toronto-based program funded by TD Canada Trust, helping women at risk of being homeless get the skills they need to step into a job.

That said, the private sector must do more than it's doing today. We need more partnerships like the ones I've mentioned if we want to reach our goal of building the best-educated, most-skilled and most-flexible work force. Our prosperity as a nation depends on it.

In the next few months I intend to meet with business and labour leaders, workers and academics across the country to better understand how we can build skills and fill jobs.

Ladies and gentlemen, I feel pretty strongly about this issue. First, as an Albertan, I see the impact of worker and skills shortages every day and I am concerned. Business owners who are retired must come out of retirement to run their businesses. Restaurants must close down early because they can't find workers. Construction projects are shelved. A shortage of health-care professionals means longer wait times for important medical services. But, as Minister of Human Resources, I'm also excited. I'm excited at the potential and opportunity for people who have been left behind to get the confidence, opportunity and hope that go hand in hand with good skills and a red-hot job market.

The problem is here; it's affecting hundreds of thousands of people, and the time to fix it is now.

Prime Minister Harper and this government are tackling it head on. We understand it's about people. It's about the right skills. It's about making Canada a magnet for talent.

As I said at the beginning, 100 years ago people with hard hands and strong backs opened up our frontier and carved a life for themselves and their families. Today's new frontiers require sharp minds and relevant skills.

But government cannot meet this challenge alone. We need the support of others. This has to be a partnership and you, ladies and gentlemen, are our partners. I look forward to working with you as we seize this great opportunity together.

Thank you.

The appreciation of the meeting was expressed by Heather C. Devine, Associate, Gowling Lafleur Henderson LLP, and Director, The Empire Club of Canada.



The Hon. Monte Solberg, PC, MP, Minister of Human Resources and Social Development, Government of Canada, and Howard Shen, President, Chinese Professionals Association of Canada.



November 21, 2007

Philippe Lacamp

Vice-President, Canada, Cathay Pacific Airways

AN AVIATION PERSPECTIVE

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Diana Conconi, Senior Vice-President and Partner, Fleishman-Hillard, and Director, The Empire Club of Canada; Dale Wang, Grade 12 Student, Harbord Collegiate Institute; Rev. Canon Kimberley Beard, Senior Pastor, St. Paul's On-the-Hill Anglican Church, and Director, The Empire Club of Canada; Y. C. Chan, Acting Director, Hong Kong Economic and Trade Office (Canada); Ross Cronin, Sales Manager, Eastern and Central Canada, Cathay Pacific Airways; Bart J. Mindszenty, APR, Fellow CPRS, Partner, Mindszenty & Roberts Corp., and Past President, The Empire Club of Canada; Howard Bohan, Vice-President Operations, Greater Toronto Airport Authority; and Frank Monteiro, President, The Hong Kong-Canada Business Association.

Introduction by Catherine Swift

The airline industry has only been in existence for just over 100 years, but it is sure hard to imagine how we could function without it today. Of course it has changed a great deal over the past century, moving from something most people shunned because they thought it was too dangerous to a common mode of transportation that is very much taken for granted. Not surprisingly, over the 20th century

the biggest advances in the industry took place as a result of war, when the pressure was on to ramp up flight technology rapidly.

In recent years, the most significant changes have taken place in response to our post-9/11 world and the ongoing threat of terrorism. I fly a lot, and I have certainly found my flying habits have changed greatly as I can no longer get to the airport at the last minute as I used to, I dress differently on flights so I don't set off increasingly sensitive scanning devices and now I always have in my purse a little plastic baggie containing my cosmetics and other liquid things so I don't have to pack and repack them every time I travel.

Another important change hitting the industry in recent years has been the overwhelming growth in Asia, and notably China and India, and the need to change flight schedules and routes to serve the region. Cathay Pacific Airways, having been founded in 1946 and the carrier most associated with Asia, is certainly very well placed to take advantage of the economic explosion in this region. The word Cathay, an old name for East Asia, always seems to evoke memories of a distant Asian past. As such, it was not surprising to find that legend has it the founders of Cathay Pacific Airways came up with the name in the bar at the Manila Hotel in Hong Kong. The airline has of course grown a great deal in its 50-plus years in the business, and has the reputation of being one of the top airlines in the world in terms of safety and service. I have flown Cathay Pacific on a few flights to Asia, and found that this reputation is very well deserved.

Our speaker today, Phillippe Lacamp, is Vice-President Canada of Cathay Pacific, and in that position he oversees all aspects of the airline's operations in Canada. He joined the Swire Group, Cathay Pacific's largest shareholder, in 1992, initially in the Information Technology department in Hong Kong, followed by a position in Hong Kong Sales, developing niche-market products specifically for the airline's loyalty program. From 1996 to 1998, he served as Assistant Manager, International Affairs, and played an important role in the re-negotiation of all air service agreements prior to Hong Kong's reunification with China. From 1999 to 2001, he served as Manager, Cabin Crew Relations.

Mr. Lacamp has held a number of international senior management positions with Cathay Pacific including Country Manager, Sri Lanka and Maldives, and Country Manager of France, Spain and Portugal. He was born in England and educated at Durham University.

Please join me in welcoming Phillippe Lacamp.

Phillippe Lacamp

It is fortuitous in many ways to follow so soon after the Hong Kong Secretary for Commerce and Economic Development, Mr. Frederick Ma, and his comments on the Hong Kong government's "New Direction for Hong Kong." Mr. Ma highlighted the ways in which foreign investment and trade is to be encouraged, especially with regards to business opportunities between Mainland China and Canada.

There are indeed enormous opportunities. The challenge is how to avoid the siren-esque call of the promise of riches in China. How does one go about getting engaged in this phenomenal market with the tremendous opportunities and potential it represents? What are the pitfalls, what are the challenges, what is the surest way to succeed? I wish I knew. What I can offer is an aviation perspective, which is a useful barometer. Aviation by its nature represents a snapshot of the world's economic health at any given moment. It is cyclical by nature, and distinct in reflecting both consumer and manufacturer confidence through passenger traffic and air cargo tonnage. To be able to look through the prism of an airline that is based in Hong Kong, the gateway to the enormity that is China, is of value. To be able to look through that prism as the single-largest airline based in Hong Kong adds depth to that value. To add to that view a position as the largest Asian airline in Canada means I should be able to share something of interest with you. If I don't, blame my speechwriter.

We'll start with the playing field. "If only it was level" is a commonly heard refrain from those not wishing to enter a particular market or industry in China. It's a comment that makes those of us doing business in the freest economy in the world smile somewhat wryly.

What is a level playing field anyway?

Here's a line made famous by one of your more distinguished speakers, Mr. Ronald Reagan, in a quote that could certainly be applicable to the North American airline industry: "Government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it."

Cathay Pacific has been in business for 61 years. Profitable for 60 of those 61 years. The only blemish was in the midst of the 1998 Asian currency crisis which was damaging enough that it could have and should have put many airlines out of business, had they not been subsidized.

We have been in a boom cycle for aviation for the last two years. You are excused if you didn't notice this. After all, this is an industry that has already lost more money in the 21st century than it earned in the whole of the 20th century. To be fair, it is a year to celebrate as the International Air Transport Association (IATA) predicts world airlines will turn a profit of \$5 billion this year, returning to the black after a seven-year absence. Five billion dollars on revenues of some \$500 billion. And to add perspective to that \$5 billion, it would fall slightly short of Hong Kong Shanghai Banking Corporation's (HSBC's) average quarterly profit. Looking at this slide, it would be a fair question to ask, "How do airlines have any economic importance?" Looking at some of our subsidized competitors I certainly scratch my head on occasion. We are proud that we have never had a cent of government ownership, nor received a cent of government subsidy. In September 2001 when airlines around the world were provided with free insurance by their governments and the industry was being paid billions of dollars in government handouts, Cathay Pacific paid its own way in the insurance markets and had no compensation for our loss of earnings. We neither asked for it nor expected the Hong Kong government to offer it. In an industry that competes

globally it is not fair to have laws which protect failing airlines from those of us which are managed well enough to be able to pay suppliers and bankers—and indeed meet the pension obligations made to their own staff. Competition is economically healthy, when the playing field is level. Sixty years of post-war economics has taught us that state subsidies preserve bad habits.

Cathay Pacific Airways (CX) is one of the most profitable airlines in the world. Our margin in 2006 was good by industry standards at just over 8 per cent. Put in the context of most other businesses with an asset base as capital intensive as aviation and one understands the often used phrase “aviation is a great industry but a lousy business.”

How does commenting on Cathay’s viability as a business help in understanding the link between Canada, Hong Kong and China? It has to do with business discipline, with a profound knowledge of a product and of the environment where that product is to be offered to the consumer.

Here’s a snap shot of Cathay Pacific Airways: Hong Kong based, serving 107 destinations with a fleet of 110 aircraft. We carried about 16 million passengers in 2006 and 1.2 million tonnes of cargo. With a Canadian perspective, we currently operate 62 flights a week between Canada and Hong Kong. We carried over half a million passengers and 24,000 tonnes of cargo and we employ about 600 people in Canada, including our very successful cabin crew bases at Vancouver International Airport (YVR) and in the Toronto Metropolitan Area (YTO). We are a full-service, full-frills airline. We don’t charge you two bucks for your pillow and blanket. We still offer a choice of hot meals even on our 55-minute flights between Hong Kong and Xiamen. Our own internal high standards dictate our product offering. We want to be world class in every aspect, from engineering standards

to in-flight service style, from cutting-edge product offering to financial viability.

And as a founding member of the One-World Alliance, we can offer access to a network of over 700 destinations worldwide. This is where I would normally crack an inappropriate joke about bankruptcy being key membership criteria of the other alliances. But it would be impolitic to do so. So I won't.

Importantly, however, we are not a stand-alone airline.

This is the Swire group. (slide shown) The circle represents where Cathay Pacific sits in the group. The detail is not important. It's the scale and perspective I wish to show. In the fickle world of aviation it's good to know that there is a very solid foundation to our aviation division.

As part of the Swire Group we benefit from the knowledge and experience of 150 years of operating in and around Hong Kong and China—understanding what we do, understanding the country in which we are doing it, the communities in those countries, and making sure we have the right product in the right place at the right time. The study of history is often of great value, as the archives of the Empire Club speeches attest. Some 87 years prior to the club's founding November night in 1903, John Swire opened a trading house in Liverpool. Fifty years later, in 1866, offices were opened in Shanghai, and in Hong Kong in 1890.

The Swire motto is *Esse Quam Videri* and is translated as “to be, and not to seem to be”; in other words, we are what we say we are; we do what we say we do. Today Swire is a large and highly diversified group. For those who are familiar with the group, you will know that it takes a long-term view. While we are proud of the long history and the reputation for integrity and quality management that has been built during that time, equally important is the fact that Swire companies have set, and continue to set, standards for operational innovation, customer service, progressive management, and

environmental best practice. Without this, we could not have survived and grown over the past 190 years in the way that we have. Nowhere in the group has this been more clearly demonstrated recently than in the expansion of Cathay Pacific in Canada, Hong Kong and China.

The best example is the acquisition and full integration of Dragonair (KA) voted the best airline in China for the last five years. It has been part of the Cathay Pacific Group since June last year.

A complex deal in many ways, I want to make just two comments. Despite sitting right in the gateway to China, Cathay Pacific until June 2006 had two points in its mainland network. Had this position not changed, CX would have been sidelined and would have stagnated, probably becoming nothing more than a small regional carrier. After the deal was struck, the picture was slightly altered. Secondly, it reflects an approach needed to unlock potential in China. You have to aim high if you are going to make an impression. Here we have a Hong Kong business and international brand, Cathay Pacific, needing to access the China market. Through patient and reciprocally beneficial negotiations with the main players, the deal was struck. Every entity felt they had achieved their aims, and yet the partnerships that it created are far greater than the individual value of the positions of any of the single organizations involved.

The deal between KA, CX and Air China further enhances Hong Kong's world city status as the greater flow of traffic to and through Hong Kong International Airport (HKIA) enhances its position as a world super-hub. We hope that the immense synergy that is being created will also allow us to play an ever-growing part in enhancing Canada's gateways to Asia.

It's an exciting time for Cathay here in Canada. On May 1 next year, we will mark our 25th anniversary of operating non-stop trans-pacific to Vancouver, and 14 years of flights to Toronto, where we will soon have 10 services a

week with an aim to be double daily as soon as possible, and to grow our freight presence further. By getting to know Hong Kong, China and Canada well, we have been able to push for greater services between Canada and Hong Kong, feeding into the extensive CX and KA network. This has opened up important links for the respective communities and also significant reciprocal investment and business opportunities. The Hong Kong, Toronto and Vancouver consumers are the main beneficiaries with the increase in choice, of course, but it is a direct result of the overall size of network traffic that enables the increase in frequencies, which in turn gives greater flexibility in timing options for connectivity for domestic flights into other key Canadian cities, i.e. hub growth.

Robert Milton has quoted himself gently teasing a senior member of our company a number of years ago, in his inimitable fashion, saying that all you had to do to be a genius at CX was aim a 747 at any big city on the planet and it would fill up profitably. It has as much to do with Hong Kong's strength as a vibrant, trade, financial and economic hub as it has to do with CX's consistent high standards and quality, that he could make that comment. It's not quite as easy today, with 80 international airlines operating into Hong Kong. That's compared to about 60 serving Pearson and 30 serving Vancouver International Airport.

With over 3,000 regional offices, 22 per cent of China's trade flowing through its ports, the world's best airport for five consecutive years, busiest seaport and air cargo hub, the freest economy in the world and a thrilling vibrancy, Hong Kong's position is enviable, significantly enhanced by the growth and investment by Swire and Cathay Pacific. Great cities of the past were built on trade routes. Great cities of today are inter-modal transport hubs and business and financial centres.

How is aviation linked to successful world cities? Well, for CX, we know that in order for us to remain a viable profitable entity in the coming years, we need to make use of and help strengthen the world-leading hub infrastructure of Hong Kong.

Airport and related road and rail projects will cost US\$31 billion, all aimed to enhance the position as the premiere hub in Asia, if not the world. As the financial secretary stated, he anticipates the investment in infrastructure to drive an annual economic benefit of some US\$12 billion. Hong Kong/Canada trade totalled \$5 billion in 2006, with Hong Kong investment reaching \$6 billion and Canadian investment in Hong Kong at \$3.8 billion. There is plenty of potential still to be realized. To stay ahead of increased competition in the region, CX and HKIA have developed best-in-class products, logistics hubs, transit points, inter-modal infrastructure and ease of access to business. A good example is Hong Kong Air Cargo Industry Services Limited (HACIS), a Swire company, which has developed an in-bond trucking service that has cut down transshipment from 2–7 days to just 13 hours. This serves the Pan Pearl River Delta, an area that is home to 450 million people and larger than the EU. Here in Canada we benefit greatly from being part of the Hong Kong family, the Hong Kong Economic and Trade Office (HKETO), strongly led by the team at the HKETO, along with the Hong Kong Trade Development Council (TDC), and Hong Kong Canada Business Association (HKCBA) making up Asia's world city here in Canada.

Hong Kong is within five hours of half the world's population and the two fastest-growing major economies. There is thus sound logic behind our decision to increase the size of our cargo fleet to 34 freighters by 2009. Indeed we announced last week the largest freighter order of our history with 10 B747-8 freighters, the biggest and most efficient in the market. To add perspective to the sheer scale of the economic growth in China, we aim to be run-

ning 40, four zero, cargo flights a week between Hong King and Shanghai Hongqiao Airport (SHA) as of next year, all adding to the infrastructure that can allow potential to be unlocked through Canada-Hong-Kong-China ventures.

The rise in oil prices continues to see the airline industry hit hard, a 67-per-cent increase in our single largest cost for CX in 2006. However I am not here to bemoan this fact. Rather to point out that the successful airlines are those flexible enough and fast enough to adapt their cost models to such cost fluctuations without compromising quality. The value chain is important, but in both directions. There is no point in Cathay Pacific investing in hundreds of millions of dollars in products that the consumer does not want, whether in First Class, Business Class or the exciting innovations in Economy Class. I wouldn't normally break for a commercial, but the revolution in this cabin, largely untouched for the past 30 years, is worthy of note. I am very pleased to inform you that with this revolutionary hard-back design and internal recline feature, if you want a seat-back two inches from your face as you eat your cold, paid-for, sandwich and struggle to open your laptop, you will need to fly with our competitors. End of commercial. The point is we have to get that right. The consumer needs to be satisfied that the product represents value for money, in whichever cabin he or she chooses to purchase. We need to be satisfied that we are getting value from our suppliers and controlling the costs that we can control.

One major issue for international airlines is an anachronistic bureaucratic layer, present in different manifestations in many businesses, that acts as a form of restraint of free-market economics. It is present in the sovereign control of airspace and the ensuing bilateral negotiations for designation by a government for those rights.

Back in 1944 at the Chicago Convention it was decided that the right of an airline to carry passengers and freight

from one country to another (or even just to fly over a country) was a sovereign right, governed by the Five Freedoms of the Air. Only governments could decide who should be allowed to fly, bilaterally, government to government.

That's what has been done for the last 60 years. There is no Most Favoured Nation. The World Trade Organization does not apply. Rights are traded, or not traded, bilaterally. In some ways telecom companies are similar to airlines, network businesses with high fixed costs, often seen as strategic in the national sense. But even telecoms are consolidating across borders. The sovereignty of air traffic rights prevents that in our industry. It's just not possible for a foreign entity to own more than a minority of another country's airline. So the normal rules of market-driven business evolution don't apply.

However liberalization by the EU countries has created a European Common Aviation Area. Airlines from within this area can fly wherever they want as often as they want. They can even fly domestic services in another country. The results? Significant economic benefit, as new and very successful low-cost carriers have flourished. The better legacy carriers have adapted and are doing OK as well.

There is a fundamental decision to one's positioning in any business. What is your objective? Sustainability and profitability are key objectives in any business model, outside Crown corporations. This is where one has to take issue with the current attitude toward aviation infrastructure in Canada. We have seen very encouraging trends emerging from the airport authorities at Vancouver (YYZ) and Toronto (YYZ) with regard to their position on landing charges and fees. Indeed Lloyd McComb and his team at the Greater Toronto Airport Authority (GTAA) have taken the difficult, but sensible, step of reversing the punitive pattern of double-digit increases levied on the

airlines. They are to be applauded and they are by many entities.

One cannot then stand quietly by and watch certain elements of the federal government make something of a mockery of their efforts to compete with the major North American hubs for the benefit of Canada. How so? Let me briefly explain.

We believe as a useful rule of thumb, every arriving aircraft contributes C\$150,000 in economic benefit.

The GTAA has commissioned studies that quantify this more clearly, as has IATA, noting that aviation in Canada generates C\$4.4 billion and 80,000 jobs. It would seem to a mere airline executive that charging more for your transportation infrastructure than anyone else is not a sound strategy for encouraging investment by users or maximizing the potential of that infrastructure. That is currently the case in Toronto, an airport that holds the dubious title of "world's most expensive" for landing a Boeing 747. Thirty-four per cent of that expense is charged by the government in the form of Crown rent. In the airline, we strive to lower our costs by optimizing our fleet and constantly increasing our productivity to provide us economic growth. As consumers we all demand more for less. In the same way hub airports are gateways for economic growth. Canadian hub airports should be the favoured gateways for North America. Airlines and airports actually agree, which is, in itself, reason enough for the relevant authorities to take note. The federal government must take a long, hard, pragmatic look at the real economic impact of using airports as a rental revenue stream. It's anachronistic and we believe economically misguided. It is notable that the only other countries with comparable rental structures are Ecuador and Peru.

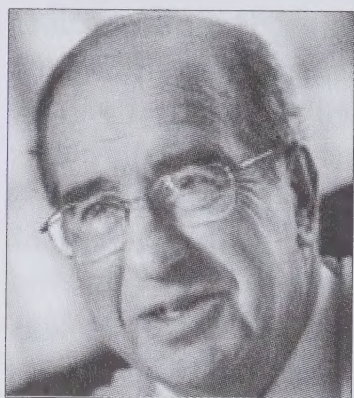
It is no surprise that Cathay Pacific has been operating three daily B747s out of Los Angeles International Airport (LAX) for years, while having only a daily flight in YYZ, operated by a smaller aircraft. With the depth of demo-

graphic and trade links between China, Hong Kong and Canada, we should have far greater services from Canada than from the U.S. We don't. We will continue to grow here, but it will be slower and more hesitant than this country merits. With the transfer to locally controlled not-for-profit corporations, the rationale for airport rent as part of these transfers was to ensure that Ottawa was "no worse off." The total value of Canada's airports was assessed at \$2 billion by Transport Canada at the time of the transfers. Since the transfers, Ottawa has already collected over \$2 billion in rent from airports, over \$1 billion from Pearson, and many of the airports have invested in new facilities without taxpayer funding. In short the federal government is much better off since the transfer of the airports; but is Canada? We all inherently understand the economic benefit for the region, province and country, through growing cargo and passenger travel. How much more competitive could Toronto be without the unnecessary burden of Crown rent and how better positioned to thrive as significant international hubs? It is Canada's choice as to whether you are an integral hub at the heart of the trade routes of today and tomorrow, or not.

To eliminate Crown rent and to nurture rather than hinder, the main hubs will allow another step to be taken to realizing the potential presented by the Canada, Hong Kong and China dynamic. From an aviation perspective we have great confidence in the future. We fundamentally understand the markets represented and we see the benefit to all that come from providing the appropriate links in the economic value chain.

That will surely make everyone winners.

The appreciation of the meeting was expressed by Bart J. Mindszenty, APR, Fellow CPRS, Partner, Mindszenty & Roberts Corp., and Past President, The Empire Club of Canada.



November 28, 2007

Lord Peter Levene

Chairman, Lloyd's of London

TERRORISM AND POLITICAL RISK— A KEY CHALLENGE FOR GLOBAL BUSINESS

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Ken Shaw, National Editor and Anchor, CTV News at Six, and Director, The Empire Club of Canada; Urooj Shahzadi, Grade 12 Student, West Toronto Collegiate Institute; Rev. Douglas Kramer, Pastor, St. Philip's Lutheran Church; Dr. Bob Christie, CEO and Superintendent of Financial Services, Financial Services Commission of Ontario; Randy Carroll, CEO, Insurance Brokers Association of Ontario; Ken J. Mead, Chairman Emeritus, Guy Carpenter & Company (Canada) Limited; Nicholas Armour, Consul-General, British Consulate-General; George L. Cooke, President and Chief Executive Officer, The Dominion of Canada General Insurance Company, and Past President, The Empire Club of Canada; Julie Dickson, Superintendent of Financial Institutions, Office of the Superintendent of Financial Institutions; Mark Yakabuski, President and CEO, Insurance Bureau of Canada; Barbara Aarsteinsen, Editor, Canadian Insurance Magazine, Stone & Cox Ltd.; and Johnnie-Mike Irving, Managing Director, Financial and Commercial, TELUS Business Solutions.

Introduction by Catherine Swift

Lloyd's of London has a long and colourful history, beginning in the late 1600s. It originally served sailors, merchants and shipowners who gathered in Edward Lloyd's coffeehouse in London, England. Contrary to what many people think, Lloyd's is not an insurance company but is an insurance market of members. It is the oldest continuously active insurance marketplace in the world. A century or so after its establishment, the members of the insurance arrangement moved to the Royal Exchange as the Society of Lloyd's. One of Lloyd's original sources of revenue was the insurance of ships involved in slave trading, as the danger involved in the slave trade meant that insurance was a major concern. When the exchange burned down in 1838, many of Lloyd's early records were lost. Later legislation passed in the British Parliament gave the business a sound legal footing.

Although Lloyd's has a complex structure, most people probably associate it with the diverse types of insurance that Lloyd's has been involved in over the years, particularly some unusual policies it has written such as insuring Jimmy Durante's nose, Celine Dion's vocal chords, Keith Richard's fingers, insuring silent film comedian Ben Turpin's eyes against uncrossing, and insuring the legs of Betty Grable, Brooke Shields and Tina Turner.

Lord Peter Levene has been Lloyd's chairman since November, 2002. Prior to that, he spent 20 years in the defence industry, and was then asked to take on the Permanent Secretary post of Chief of Defence procurement in the Ministry of Defence. He held that post for six years, after which he held a number of other government positions including serving as Adviser to the Prime Minister on Efficiency and Effectiveness from 1992 to 1997. He was also Chairman of the Docklands Light Railway and Chairman and CEO of Canary Wharf Limited. In addition to being Chairman of Lloyd's, he is presently Chairman of General Dynamics UK Limited and a member of the Board of TOTAL SA, China Construction Bank and Haymarket Group.

Lord Levene is an alderman of the City of London and served as lord mayor for the year 1998–1999. He received a knighthood in 1989 and became a life peer in 1997, and sits in the House of Lords as a crossbencher.

Please join me in welcoming Lord Peter Levene.

Peter Levene

Good afternoon. I am delighted to be back here in Toronto at the Empire Club, although I admit I am always slightly

awed to be speaking at a forum that has hosted every Canadian prime minister and Winston Churchill!

“Empire” sounds rather an incongruous word today. However, I understand that the reason for this club’s foundation, just over a century ago, was the perception of its early members that there was a crisis at hand. There had been a sudden and widespread turning against the English in a way that seemed to pose a serious threat to Canada’s future as a loyal participant in the British Empire.

One hundred and three years on, instability continues to present a common challenge, which we need to tackle together. As the world’s leading specialist insurance market, anticipating and responding to the changing risk environment lies at the heart of what we do at Lloyd’s. As insurers of the world’s leading companies, our focus at Lloyd’s is on helping the business community to understand and respond to today’s risks. Here in Canada we represent your nation’s seventh-largest insurer, providing coverage for more than three-quarters of your Fortune 500-listed companies.

Working with the Economist Intelligence Unit earlier this year, we conducted research with global business leaders, and they told us that they believe they are operating in an increasingly dangerous world. In particular, they are spending more management time considering the impact of terrorism and political violence on their operations.

Right now, Lloyd’s is a very significant provider of insurance for terrorism risks in Canada, and we are also at the forefront in providing terrorism coverage for Canadian interests abroad. The real estate, hotel and transportation sectors are amongst those we cover, and the 2010 Winter Olympics is already buying terrorism coverage from Lloyd’s.

So today, drawing on our own experience in the U.K., Canada and around the world, I would like to explain why

Lloyd's believes that instability is an issue of rising importance for 21st-century business leaders and share our thoughts on practical action business can take to manage and mitigate the risks.

Business is as much at risk as government

Let me start by explaining that in our research the majority of global business leaders concluded that business is as much at risk as government from terrorism and political violence.

It's a fact that about 20 per cent of international terrorist attacks are directed against business, which means between 150 to 200 such attacks on business around the world each year.

In the aftermath of 9/11, close to 200,000 jobs were destroyed or at least temporarily relocated out of New York City as lower Manhattan lost about 30 per cent of its office space. And in addition to 9/11, nearly 2,000 people have died in the last decade in terrorist attacks on business worldwide.

Canada's risk profile has changed in recent years and while no stranger to terrorism, intelligence suggests that its role is shifting from a hub for fundraising and planning attacks outside the nation—for example in the U.S.—to a credible target in its own right. We are told that, by this year, there were thought to be some 60 groups operating within Canada's borders that support an extremist jihadi ideology.

Certainly, your intelligence services, CSIS, says that there is a "direct threat" to Canada and Canadian interests from al Qaeda and related groups.

Canadian urban centres have thankfully so far been spared the likes of the attacks experienced in New York, London, Madrid, Nairobi, Jakarta and other cities around the world. By all accounts, Canada's domestic security services have done a first-class job. But that should not lead to complacency.

Today's global businesses are spending increasing amounts of time discussing terrorism-associated risks at board level. But only one in three business leaders believe their companies actually have a strong understanding of these risks. The decisions, which business leaders are making in connection with these risks, may not always be the correct ones.

Why is this? At Lloyd's, we believe that part of the reason is that companies are too eager to rely on public information. Too few are prepared to devote the necessary resources to their own research and analysis.

For example, two-thirds of companies use international media as a source of information on the political risks they encounter around the world, while fewer than half use local media or have a mechanism for employees to feed information they have learned into risk analysis. This is despite the fact that someone working long-term in a volatile region often knows more about what is going on than an international reporter who jets in and out. Moreover, only one in five companies seeks out specialist information on these risks, for example through private consultancy, academic writings or NGO reports. The latter two can even be free. As a result, too few businesses are properly thinking through the risks and scenarios their own business faces.

This can all too easily lead to a flawed perception of risk as well as causing business leaders to decline valuable investment opportunities in new markets for the wrong reasons.

Another factor is that many companies are not taking the basic steps to prepare for terrorism risk at home. A quarter of global companies still don't have a formal business continuity plan in place. Moreover, of those that do, too many fail to test their plans regularly or upgrade them to take account of changing risk levels.

Greater recognition amongst business leaders of the changing risk environment is certainly good news. But

business leaders need to invest in greater research and analysis and better business continuity testing at company level, in order to be confident of understanding and responding to terrorism and political risk.

New areas of risk are emerging

Next, a number of new areas of terrorism risk are emerging, which business leaders may want to consider.

First, global concerns about energy security have brought to the fore the issue of supply-chain risk. Around a quarter of large companies think an attack on their energy supply is now a significant risk for their business.

The wider issue is this: in an increasingly complex and interconnected economy, the risks of companies you do business with are now your risks too. A disruption of operations further down the line on which you are dependent has the ability to cripple your business. Lloyd's underwriters advise that while supply chains cannot be fully covered against losses from damage to infrastructure that firms don't control, businesses can take important steps to understand the critical dependencies better and make their processes more resilient.

Technology provides another area of emerging risk. Until recently, cyber-terrorism sounded like the stuff of science fiction movies. But then in Estonia this May, a series of attacks on the country's critical national infrastructure left banks immobilized for three weeks. This was a powerful piece of organized political violence and at the height of the attacks, 20,000 networks of compromised computers were being manipulated.

While attacks like this may be rare so far, this is a risk, which many companies believe is going to rank higher on the boardroom agenda in future. Moreover, there is no doubt that today's violent groups are adept at using IT for networking and recruitment, and for money-laundering activity. Perhaps unsurprisingly therefore, our research found that over four in 10 respondents have increased IT

security in recent years in the light of the threat from terrorists. Overall, there are a host of good reasons to invest in IT security and while terrorists or other violent groups may not alter significantly the kind of risks or solutions needed, investment to ensure that company information and systems are secure is probably money well spent.

Third, 21st-century terrorism means thinking about the worst, including potential chemical, biological and even nuclear outrages. A fifth of global companies—and a third of larger ones—now cover this threat in their continuity planning. But is this thinking premature, or does it indicate forward-looking risk management thinking?

Evidence suggests that al Qaeda has a serious interest in acquiring such weapons, although it would be alarmist to suggest the threat is necessarily imminent. At the same time, in the last five years, in both France and the U.K., plots to engage in widespread ricin poisoning have been foiled by police. Prudence, not alarmism, therefore suggests that business leaders should consider the risk of such attacks, especially where the technology for them already exists.

Terrorism is a threat, which is here to stay

Finally, we need to recognise that terrorism is a threat, which isn't going away any time soon. Walter Laqueur, Professor of International Security Studies in Washington DC, puts it like this: "Terrorism is relatively cheap and will be with us for as long as anyone can envision."

In particular, the rise of home-grown terrorism with a jihadi ideology seems to have taken society by surprise. In fact, at both our recent terrorism conferences in London and New York, around nine in 10 business and insurance professionals said that they see home-grown terrorism as a significant threat for the business community. And worryingly but perhaps unsurprisingly, they say they don't understand the impact it might have on their organization.

It is alleged that in a 2004 Internet posting, al Qaeda named Canada as the fifth-most-important target after the United States, Britain, Spain and Australia. And in May last year, CSIS Operations Director Jack Hooper said that terrorists born here in Canada represent a national security threat equal to that of terrorists from outside the country.

We face a struggle to regain a lost generation. And this generational struggle is one which we can only win by co-operating together—government, business and wider society.

Long-term threats require well-thought-out, long-term solutions. From an insurance perspective, this often means having a formal public-private partnership in place to provide businesses with coverage against the risk of terrorist attacks.

Britain has had such a partnership in place for decades, where the commercial insurance market participates in a pool scheme with the government acting as the ultimate reinsurer if the loss is very severe. Other economies such as South Africa and Spain have had similar pools for a long time. More recently Australia, France, Germany and the U.S. have developed their own schemes to deal with terrorism's more extreme impacts. Needless to say, Lloyd's is an active participant in many of these, but Canada is noticeably alone amongst the world's leading western nations in not having a terrorism pool in place.

Long-term thinking is also a must for business at the individual level. Although governments are doing much to tackle the threat, they cannot do everything by themselves. And like it or not, business is perceived as part of the problem and needs to be part of the solution. The corporate sector can do much to drive engagement between wider society and communities whose young people are the most vulnerable to extremist ideology.

Organizations also have much to gain by being good neighbours overseas too. Most businesses have traditionally tended to stay invisible in times of violence, but a

growing number of experts now believe that business can play a more active role. Whether at home or abroad, this does not mean trying to solve political problems so much as driving economic development in ways which can help deliver a more stable operating environment and improved community relations.

Conclusion

In conclusion ladies and gentlemen, the terrorism risk for business is real, and the majority of executives believe that the risks will increase worldwide over the next five years.

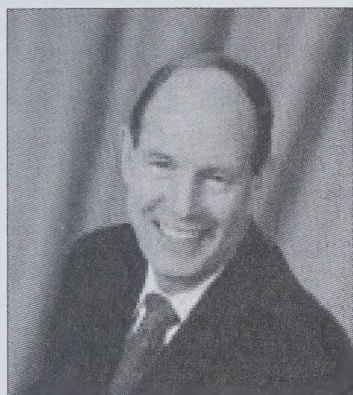
- Business is now as much at risk as government, and Canada is no exception. But investing resources to research and understand the risks and to establish and test continuity plans will help us come to grips with the risks we face.
- Second, new areas of risk are emerging which we need to anticipate and to which we must respond with supply-chain risk, cyber-terrorism and even chemical and biological terrorism at the top of the list for consideration.
- Finally, whether we like to admit it or not, terrorism is a risk which is here to stay, so our strategy to counter it both at home and abroad must be long-term too.

With the right planning and consideration, businesses can become even more resilient and adaptable so they can cope with both the threats and opportunities, which come their way.

And Lloyd's, with 75 years of experience helping Canadian companies manage and mitigate their risks, will remain a loyal partner in helping them face the future.

Thank you for listening.

The appreciation of the meeting was expressed by George L. Cooke, President and Chief Executive Officer, The Dominion of Canada General Insurance Company, and Past President, The Empire Club of Canada.



December 9, 2007

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

David Dodge

Governor, The Bank of Canada

REFLECTIONS ON DEVELOPMENTS IN THE CANADIAN FINANCIAL SYSTEM

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Allan O'Dette, Director, External Relations and Public Affairs, GSK Inc., and President, The Canadian Club of Toronto; W. Iain Scott, Chair and CEO, McCarthy Tétrault LLP, and Director, The Canadian Club of Toronto; Philip Deck, Chair and CEO, MKS Inc., and Board Director (Ontario), The Bank of Canada; Buzz Hargrove, National President, Canadian Auto Workers Union; John Crow, International Advisor, Lawrence and Company, Former Governor, The Bank of Canada; Diane Brisebois, President and CEO, The Retail Council of Canada; Susan Wolburgh-Jenah, President and CEO, The Investment Dealers Association of Canada; Irene David, GTA Managing Partner, Ernst and Young, and Director, The Canadian Club of Toronto; Keith Farlinger, Chair, Institute of Chartered Accountants of Ontario; Scott Jolliffe, National Managing Partner, Gowling Lafleur Henderson LLP; Dr. Sherry Cooper, EVP and Global Economic Strategist, BMO Financial Group; Carol Hansell, Senior Partner, Davies Ward Phillips and Vineberg LLP, and Board Director (Ontario), The Bank of Canada; Mark Carney, Incoming Governor, The Bank of Canada (2008); and Don McCutchan, Partner, Gowling Lafleur Henderson LLP, and Director, The Empire Club of Canada.

Introduction by Catherine Swift

The Christmas season is well upon us, and I think Diane Brisebois, the President of the Retail Council of Canada, who joins us at the head table today would confirm that Canadian consumers are shopping and their confidence is high.

Inflation is down as retail prices adjust to the strong Canadian dollar and last week the Bank of Canada took the step of lowering the overnight interest rate.

As the year winds down to a close it's also a good time to take stock of the year that was.

There was the sub-prime mortgage crisis, a bombshell that roiled U.S. markets. The ripples will continue to be felt there and around the globe.

A new super-loonie may buffer the effect of international instability on the Canadian economy. And while it's perhaps good for consumers, it is clearly not so good for our manufacturers and exporters. Will the Loonie settle down, or will it continue to ascend and swoop in the New Year?

Certainly, it's been a bit of a thrill-ride this year. But thrills are probably better suited to a fairground, not to an economy.

When it comes to the Canadian financial system, I think we'd all prefer safety and security, because the freedom and ability of Canadian families and firms to confidently hold and transfer financial assets is one of the fundamental building blocks of our economy.

And that's where the Bank of Canada comes in. For seven decades the bank has been the guardian of Canadian financial stability, committed to promoting the economic and financial welfare of Canada, fostering a safe and efficient financial system.

It goes without saying that the international financial system is large and complex.

Safeguarding our own economy from disruptions—originating here or abroad—to financial institutions, markets and clearing and settlement systems is the sworn duty of the Bank of Canada and it's a daunting task.

As we head to the end of 2007, we should also make mention of another important date coming up early in the New Year.

David Dodge has been the Governor of the Bank of Canada since 2001 and we now enter the final weeks of his tenure.

Since 2001, David Dodge has put his expertise on the line eight times a year making periodic interest-rate policy announcements. It's a delicate task. For seven years his job has been to keep the economy chugging along with just a hint of manageable inflation.

He is widely respected by economists in Canada and abroad for his insight, courage and openness. He has been a steady hand at the tiller, an able captain through both smooth and rough waters.

He joins us here today to offer his reflections on the Canadian financial system.

Ladies and gentlemen, please join me in welcoming our very special guest speaker, the Governor of the Bank of Canada, David Dodge.

David Dodge

I'm happy to be here in my home-town of Toronto to deliver my final public speech as Governor of the Bank of Canada. Nearly seven years ago, I gave my first public speech in Toronto, so it is fitting that I should be here for my last.

It has become a tradition that I deliver a speech late in the year on issues related to the financial system. When I say "financial system," I mean financial institutions and markets, together with the clearing and settlement systems through which financial assets flow. This tradition of speaking about the financial system began in 2004 with a speech I gave to a joint meeting of the Empire and Canadian Clubs about the need to promote economic efficiency in Canada.

You may be asking why the Bank of Canada, with its well known responsibility for monetary policy, would put such emphasis on financial system issues. The answer is that the two are tightly linked. We care a great deal about the financial system because a serious disruption in it would affect our ability to conduct monetary policy, and because increasing the efficiency of the financial system can increase the effectiveness of our monetary policy. At the same time, contributing to a stable economy through sound monetary policy helps reduce the risk of instability in the financial system. I'll talk about monetary policy a bit later. But first, I want to look back over the past seven years—in particular, the past seven months—and discuss some of the developments that we have seen in terms of

financial system issues. To begin, I will give a brief overview of the bank's role in the financial system, and review some of the issues I've raised in the past few years. Then, I will discuss the dislocations in financial markets that began during the summer, and talk about how problems related to information contributed to the market turbulence. Finally, I'll look at the effects that these events continue to have, both on financial markets and on the outlook for the Canadian economy.

The Bank and the Financial System

One reason for giving these financial system speeches near year-end is so that they coincide with the publication of the December edition of the bank's Financial System Review (FSR). The purpose of my previous speeches was the same as the bank's purpose in publishing the FSR; that is, to improve public understanding of financial-system developments and trends, to point out potential vulnerabilities in the system, to highlight some of the bank's research, and to promote discussion of financial-system issues in general. Ultimately, the goal is to help provide the context that will lead to stronger financial-system policies in Canada. The latest issue of the FSR was published last week, and it deals extensively with the market turbulence that began during the summer.

The bank actively works to promote a financial system that is both stable and efficient. I've already mentioned that financial instability can impair the bank's ability to conduct monetary policy. But most importantly, a stable financial system is crucial for an economy to function well. In Canada, the responsibility for promoting financial stability is shared by a number of agencies. Our partners include the Department of Finance, the Office of the Superintendent of Financial Institutions, the Canada Deposit Insurance Corporation, and provincial regulators and securities commissions. The bank is also the ultimate provider of liquidity to facilitate the settlement of finan-

cial transactions and is the lender of last resort for financial institutions.

Despite the importance of financial-system efficiency, there is no single body responsible for promoting it. What do I mean when I say “efficiency”? An efficient system is one where scarce economic resources can be allocated to the most productive uses in a cost-effective way. In an efficient financial system, investors can get the highest risk-adjusted returns on their investments, and borrowers can minimize the costs of raising capital. Inefficiencies can stunt investment and cut into economic growth.

The Bank of Canada contributes to financial-system efficiency through our monetary policy, which keeps inflation low, stable, and predictable. We also have a legislated role to oversee Canada’s most important clearing and settlement systems. These systems have been designed to provide certainty that large-value payments or securities transactions will settle in real time, while using relatively small amounts of liquidity. This frees up resources that can be put to better use elsewhere.

Over the past four years, I have tried to highlight some important efficiency issues for Canada. In 2004, I spoke of the need to promote efficiency in our financial institutions, arguing that our policy framework should provide greater incentives for innovation by encouraging competition while, at the same time, giving our financial institutions the scope to improve efficiency. There remains much work to do to encourage innovation, competition, and efficiency.

I also spoke about the need to improve Canada’s securities regulation so as to have uniform laws and regulations, based on principles that apply to everyone, but tailored to take into account the differing size and complexity of firms. There has not been as much progress here as I would have hoped. So, Canada remains at risk of seeing its capital markets eroded as business migrates to other financial centres.

I've also talked about the need to improve enforcement in securities markets, because markets work more efficiently when they operate under clear, transparent, and reasonable rules and principles, which are enforced and are seen by all as being enforced. Some progress has been made here, and I welcome the commitment of the RCMP to improve and to implement many of the recommendations set out by Nick Le Pan in his report last week. However, much better co-operation and co-ordination of efforts among securities commissions, law-enforcement agencies, Crown prosecutors, and ministers of justice and attorneys general is absolutely crucial.

Another efficiency issue I've raised is the need to strengthen Canada's regulatory, legal, and accounting frameworks related to private defined-benefit pensions, so that risks are dealt with in an appropriate way. Pension funds can generate important gains in terms of economic efficiency. They help to achieve a more efficient allocation of savings; they are invested by asset managers who have the incentive and the ability to invest across varied asset classes; and, with their very long investment horizons, pension funds can be used to finance long-term investment projects at competitive rates of return. Reviews of pension regulations are under way at both the provincial and federal levels. If we can collectively get these changes right, sponsors would have the appropriate incentives needed to manage risk effectively, thus enhancing the viability of our system of private, voluntary defined-benefit pensions for the good of Canadian workers and firms, and for the benefit of our capital markets.

These issues are critical for Canada's future economic prospects. The role of the Bank of Canada has been to do the research and provide the analysis to inform public policy in these areas. I am confident that this work will continue at the bank in the years ahead. It is up to the responsible authorities to act on these research findings, and to move these issues forward.

At the heart of many of the issues that I've just mentioned are problems related to information. Indeed, one of the key lessons of the past seven months is how information asymmetries can lead to, or exacerbate, disruptions in financial markets. So let me now turn to a discussion of these recent events, and look at how problems with information contributed to the market turbulence.

Market Dislocations and the Role of Information

To truly understand these events, it's important to have some context. You can find a detailed account of recent events in the December issue of the FSR. The turbulence in financial markets came about against a backdrop of remarkable strength in the global economy. We had seen continuing robust demand for Canadian goods and services that led to a significant improvement in our terms of trade, helping to support the Canadian dollar.

Despite this positive backdrop, there were signs of potential trouble in the global economy. As early as 2003, the bank had flagged concerns about global imbalances. The high level of global desired savings relative to desired investment naturally served to drive down real longer-term interest rates, even as central banks around the world were in the process of raising short-term policy rates.

With the decline in longer-term interest rates, investors stepped up their demand for riskier assets that would deliver greater returns. This search for yield led to a narrowing of spreads between the yields on risky assets and government bonds. This narrowing of risky spreads became so pronounced and so persistent that many central banks began to question whether they adequately reflected the credit risks that were involved. In fact, the Bank of Canada highlighted this precise concern as far back as our June 2004 issue of the FSR. A repricing of risk

appeared necessary, but the real question was how, and in what manner, it would take place.

Besides the need for a repricing of risk, other factors have contributed to the market turbulence that began this summer. Originators of loans—both bank and non-bank institutions—were increasingly opting to securitize the loans they made in the form of highly structured asset-backed securities, some of which embedded very significant leverage. These were often sold in tranches that provided varying degrees of protection from the default risk involved. Such structures allowed higher-risk assets to appear to take on the qualities of lower-risk assets. The increased use of leveraged structured products was pioneered in major financial centres such as New York and London, although eventually, non-bank institutions began to market these products elsewhere, including here in Canada. The ease with which these highly structured products were sold fuelled the demand for the creation of higher-risk assets, including U.S. sub-prime-mortgage loans. This, in turn, contributed to the global decline in lending standards.

At times, the originators of these loans had fewer incentives to carefully assess the creditworthiness of borrowers. This is because the originators were sometimes distributing all of the loans they had made. In these circumstances, once the loans had been securitized and sold, the originator no longer faced the consequence if the borrower defaulted. I'll return to this point a bit later. But for now, suffice it to say that the decline in standards for loan origination, combined with financial engineering, was helping to spur greater lending.

The process of securitization is not new. Securities backed by mortgages, credit card receivables, or other types of assets, have been around for years. Indeed, the development of a market for "plain vanilla" asset-backed securities was important since it allowed for the expansion of credit through the market. Initially, this market

developed in a reasonably transparent way, in that the nature of, and risks associated with, the underlying assets were clear. Here in Canada, for example, an investor could know with certainty that the mortgages backing securities met the lending standards set by Canada Mortgage and Housing Corporation, or that the loans backing a security were of high enough credit quality that a bank or a retailer was prepared to stake its reputation on the securities. These plain-vanilla asset-backed securities continue to exist and remain an important source of high-quality market-based financing.

But more recently, we have seen the emergence of increasingly complex structured products, which were developed in response to the demand for higher returns. And as these securities have become more complex and opaque, in many cases, it has become harder to assemble and understand all the information needed to determine what kinds of assets are backing the security, the quality of those assets, and the counterparty risk involved.

A final point here has to do with how these complex securities are valued. Trading of these securities in secondary markets is rare. Thus, prices for these securities are not very transparent. Most of these highly structured securities are valued on a “marked-to-model” basis, meaning that statistical models are used to provide values. But the models typically provide only estimates of values, and these estimates can vary widely if there are changes in the underlying assumptions. Indeed, many of the models assume that the assets backing these securities can be readily traded in a liquid secondary market—an assumption that is clearly not always valid. So it becomes extremely difficult to put a firm value on a particular security at any given time.

So, we can now see that many factors made credit markets vulnerable to the recent dislocations. The repricing of risk I mentioned earlier was, in fact, underway before August. By late spring, the spreads on lower-rated corpo-

rate bonds had begun to widen to levels closer to historical averages. As we moved into summer, however, we saw rising delinquency rates and higher probabilities of default on U.S. subprime mortgages. And so, there were rising expectations of losses for holders of securities backed by these mortgages. But because of the complexity and opacity of some of these securities, it is extremely difficult for even sophisticated investors to determine, with confidence, both the creditworthiness of the assets backing a particular security and the market value of the security itself. In these circumstances, uncertainty led to contagion and dislocations in money markets more generally, even those markets that have no link to U.S. subprime mortgages. Liquidity, which was recently thought to be too abundant, became scarce. Some investors found that the assets that they assumed were liquid were, in fact, frozen. Investors suddenly became extremely risk averse, leading to a surge in demand for the least-risky assets, such as government bonds and treasury bills.

The lack of transparency and problems with information have clearly contributed to the ongoing market turbulence. The global repricing of credit risk is taking longer than many of us initially expected. This is because it is taking more time to unravel some of these complex and opaque instruments to get to the underlying assets, and then to find values for the assets themselves. In addition, uncertainty remains about the extent to which banks are holding these securities, how much they may be required to take onto their balance sheets, and what value to place on them. This uncertainty has exacerbated problems in the global interbank funding market, but because of their strong balance sheets, Canadian banks have been somewhat less affected. Over time, market forces can still be expected to work out these problems. But markets need information to operate efficiently. So, it

is in the interest of market participants to make sure that parties have access to all necessary information.

Globally, markets for structured asset-backed securities remain under stress. In Canada, the problems have been most acute in the market for structured, non-bank-sponsored, asset-backed commercial paper. The information needed to properly price these products is only now beginning to be made available. With this information, investors and the providers of assets and liquidity are now progressing towards restructuring agreements.

As we go forward, we can expect that investors will demand greater transparency where it is now lacking. Vendors of financial instruments will then need to structure them in such a way that market players can clearly see what they are buying. More fundamentally, investors must take on more responsibility for diligent research, so that they can better understand the nature of their investments. Put another way, investors must demand access to appropriate information so that they can do their own homework, and then they must do that homework. It seems to me that many of these desired outcomes will be accomplished through natural market forces responding to these events. For example, when investors demand much higher rates of return for opaque products, there will be a strong incentive for vendors to provide products that are more transparent.

Let me touch briefly on the role of credit-rating agencies in all of this. There is an article in the current FSR that expands on the issues related to the possible reform of the credit-rating process. One thing that is clear is that in the future, credit-rating agencies will find it to their advantage to explain more clearly the rationale for, and limitations of, their ratings for highly structured products. There are some natural, self-correcting market forces at work that should lead the rating agencies to improve their processes. Indeed, those credit-rating agencies that

do not work harder to improve their processes will likely have fewer clients willing to pay for their services. As I understand it, most agencies are working on such improvements.

But credit-rating agencies are not to blame for the lack of information about those highly structured products that were sold to highly sophisticated investors in the so-called exempt market. In the retail market, securities regulators impose strict requirements about the information that must be provided through a prospectus or term sheet. But there are no such requirements in the exempt market. It seems to me that some very basic disclosure is needed in every market. And since securities designed for the exempt market are usually required to carry a rating from a credit-rating agency, one way to ensure that appropriate information is available could be to require issuers to publicly disclose the same information that they make available to credit-rating agencies. In this way, investors would have access to the information they need in order to make informed decisions.

Another issue that we need to think about is how to get the right incentives in place for loan originators, so that credit quality is maintained and credit can be appropriately priced. I mentioned earlier that, in some cases, the creation of loans largely for immediate securitization reduced the incentive for originators to maintain credit standards. Since the originators were immune from default risk once the loan was completely securitized and sold, they lacked the proper incentives to adequately assess the creditworthiness of the borrower. It may be that natural market forces will go a long way towards rebalancing incentives, but the question can be asked: "Are there ways to encourage the more appropriate use of securitization?" It may be possible, for example, to have asset-backed securities carry some type of "branding" or "certificate of origination" that would provide a clear incentive for the loan originator to exercise due diligence

in extending the loan before it is securitized. Or, we can look for ways to encourage originators to keep a substantial portion of the riskiest tranche of the product they are selling on their own books.

Implications for Monetary Policy and the Economy

Let me now discuss the impact of these recent market dislocations, both on our work at the Bank of Canada, and on the Canadian economy. The impact on the bank has been two-fold. First, we have undertaken open-market buyback operations and made sure that Canadian banks have had access to our Standing Liquidity Facility, so that they have been able to deal with any overnight liquidity difficulties. This is a normal role for any central bank, and it will continue. But, in the wake of recent events, we are currently looking at whether some types of liquidity disruptions in Canada might be better addressed if the Bank of Canada had a facility that would provide liquidity at terms longer than overnight. We are also examining changes necessary to allow the bank to accept a wider range of securities for our buyback operations.

The bank's other role, of course, is to conduct monetary policy with the aim of delivering low, stable, and predictable inflation. We have been working to ensure that the financial system has the proper amount of liquidity so that the overnight interest rate—our key policy rate—remains close to target. But what we have seen since this summer is a widening of the spread between short-term market interest rates, such as the rate for commercial paper, and our target for the overnight rate. This is important, because these short-term market rates are a crucial link in the way monetary policy is transmitted: from our key policy rate, to the cost of credit, to spending, production, employment and, ultimately, to the rate of inflation.

These wider spreads have persisted, and they represent a tightening of credit conditions in Canada. These

tighter credit conditions have come as financial market difficulties have intensified over the past few weeks and as bank funding costs have increased globally. At the same time, there is an increased risk attached to the prospects for demand for Canadian exports because the outlook for the U.S. economy—particularly the U.S. housing sector—has weakened. Uncertainty related to all of these factors has led to exceptional volatility in financial and currency markets globally.

While there remain upside risks to inflation in Canada, all factors considered, the bank judges that there has been a shift to the downside in the balance of risks around our October projection for inflation. In light of this shift, we lowered the target for the overnight rate last week. Before our next interest rate decision in January, we will assess all economic and financial developments and the balance of risks, and do a full projection for the economy and inflation.

Conclusion

Ladies and gentlemen, as you know I will be stepping down as Governor of the bank at the end of January, and concluding more than 35 years of involvement in economic policy within the public service. Since this is my last public speech as Governor, I thought it might be apt to conclude my remarks today with three of the most important lessons for economic policy that I—and I believe many Canadians—have learned over the past 35 years.

The first lesson is that both individuals and firms must always be prepared to adjust quickly to changing global economic circumstances. The world will evolve in ways that we cannot predict, so we must be prepared to deal with change and seize new opportunities as they arise. Perhaps even more importantly, we should not cling to activities that are no longer economically justified, however difficult and painful adjustment may be. Not

adjusting is not an option. In the end, rapid adjustment is less painful than prolonging activities where we no longer hold a comparative advantage. This is the lesson that I and many other Canadians learned from our difficulties in the 1970s and the early 1980s.

Second, we have all learned the importance of achieving and maintaining sustainable levels of public debt. Canadians paid a very real price in the 1990s to control the growth of public debt, and have wisely used the favourable conditions of the past decade to bring down the ratio of public debt to GDP. Although conditions will not necessarily be as favourable over the next decade as they have been recently, nonetheless, further efforts to reduce the debt-service burden are needed in order to prepare for the inevitable effects of the aging of our population.

Third, we have all learned that the most important contribution a central bank can make to economic welfare is to maintain confidence in the future value of money. In the 1970s, we all witnessed the economic and social instability caused by high and volatile inflation. In the 1980s, we paid the price of recession to get inflation under control. Since the early 1990s, our inflation-targeting regime has kept inflation low, stable, and predictable at 2 per cent. This, together with fiscal consolidation, has helped to keep growth more steady, employment to rise to historically high levels, and unemployment to fall to levels not seen for decades. My colleagues at the bank will continue to search for technical improvements in our inflation-targeting regime, but I am confident that the bank and my successor, Mark Carney, will continue to keep inflation low, stable, and predictable, for the benefit of all Canadians.

Finally, let me close by saying that it has been an enormous privilege for me to be able to serve Canadians for three and a half decades. I am grateful for having had that opportunity, and I am hopeful that, in some way, my

efforts over the years may encourage others to follow in the service of Canada and its people.

The appreciation of the meeting was expressed by Allan O'Dette, Director, External Relations and Public Affairs, GSK Inc., and President, The Canadian Club of Toronto.



Heather Ferguson, President, The Hearing Foundation of Canada, and Director, The Empire Club of Canada, Lisa Baiton, Vice-President, Government Relations, Environics Communications, and Director, The Empire Club of Canada, and Catherine S. Swift, President and CEO, Canadian Federation of Independent Business, and President, The Empire Club of Canada.



Lisa Baiton, Vice-President, Government Relations, Environics Communications, and second Vice-President, The Empire Club of Canada, Robin Sears, Principal, Navigator, and Director, The Empire Club of Canada, and Rod Phillips, President and CEO, Shepell fgi.



December 13, 2007

The Hon. David C. Onley

Lieutenant-Governor of Ontario

ANNUAL CHRISTMAS LUNCHEON

Chairman: Catherine S. Swift

President, The Empire Club of Canada

Head Table Guests

David Goodwin, Director, The Empire Club of Canada, and Co-Chair, The Empire Club Christmas Luncheon; Detective Larry Dee, 23 Division, Toronto Police Services; Corp. Benjamin Swanson, Mobile Support Equipment Operator, 25 Service Battalion; Chief Bruce Farr, Chief/General Manager, Toronto Emergency Medical Services; John Lynas, Emergency Medical Dispatcher and Communications Training Officer, Toronto Emergency Medical Services; Sarah Robertson, Lifeguard, Toronto Police Lifeguard Service; Lionel Juan, Professional Engineer and Business Professional; Sergeant Karen Chapman, Toronto Police Services; Warrant Officer Richard Anderson, Joint Mission Task Force in Afghanistan; P. C. Patrick Duerden, Toronto Police Services; Gareth Seltzer, Past President, The Empire Club of Canada; Captain Anthony Robb, Operations Officer, 32 Combat Engineer Regiment; Deputy Chief John Lock, Toronto Emergency Medical Services; Jason Grass, Paramedic, Toronto Emergency Medical Services; P. C. Brian Emery, Toronto Police Services; Acting Chief Jane Dick, Toronto Police Service; Petty Officer Patrick Murphy, The Canadian Forces; Detective Constable Ennis Spencer, Toronto Police Services; Detective Constable Angad Vir Singh, Toronto Police Services; Fred Gaby, Award Winner, The

Empire Club of Canada Community Service Award; David Edmison, Chairman, The Empire Club of Canada, Community Service Committee, and Past President, The Empire Club of Canada; P. C. Claudio Ceolin, Constable and School Liaison Officer, Toronto Police Services; Craig Wilson, Advanced Care Paramedic, Toronto Emergency Medical Services; Brigadier General Gary Stafford, Deputy Commanding Officer, Land Force Central Area; Shelagh Paul, Dominion of Canada General Insurance Company; The Rt. Rev. Colin R. Johnson, Bishop of the Anglican Diocese of Toronto, and Honorary Chaplain, The Empire Club of Canada; and Her Honour Ruth Ann Onley, International Christian Recording Artist.

Introduction by Catherine Swift

It is now my pleasure to introduce the 28th Lieutenant-Governor of Ontario, the Honourable David C. Onley.

The Honourable David C. Onley took office on September 5, 2007 as Ontario's 28th Lieutenant-Governor. Born in Midland, Ontario, His Honour attended local schools and graduated from the University of Toronto in 1975 with an Honours Bachelor of Arts and Political Science. He worked as an intern at Queen's Park and attended the University of Windsor Law School.

His Honour has championed disability issues on many fronts and for many years. Having lived with polio and post-polio syndrome since the age of three, he has broken through social barriers and become a role model for many people.

In his 22-year career with Citytv His Honour was Canada's first senior newscaster with a visible disability. A popular news anchor, host producer, science and technology specialist and weatherman, he showed that ability outshines disability.

His Honour has chaired the Government of Ontario's Accessibility Standards Advisory Council, served on the Skydome Accessibility Council, and the Air Canada Centre Accessibility Committee.

For his public service His Honour has been presented with the King Clancy Award for disabled persons, the Courage to Come Back Award and the Positive Impact Award. He was inducted into the Terry Fox Hall of Fame and the Scarborough Walk of Fame and received an Honorary Doctor of Laws degree from Canada Christian College.

His best selling novel "Shuttle" was nominated as Book of the Year in 1982 by the Periodical Distributors Association. He co-founded and was President of the Aerospace Heritage Foundation.

Ladies and gentlemen, the Honourable David C. Onley,
Lieutenant-Governor of Ontario.

David Onley

Ms. Swift, distinguished guests, ladies and gentlemen:

I'm told that the Empire Club Christmas luncheon is a Toronto tradition that has taken place every year since 1913. I was also interested to learn that it was not until 1963 that lieutenant-governors became part of the head table. I'm not sure who considered whom the riff-raff.

I do know that I am very happy to join you in this special season, when communities across Ontario gather to celebrate a host of multicultural holidays, including Eid al-Fitr, Hanukkah, Kwanzaa, and Christmas. Whatever you call it, I think you will agree with a man called Hamilton Wright Mabie, who said: "Blessed is the season which engages the whole world in a conspiracy of love."

And nowhere is that conspiracy more apparent than in the makeup of this year's Christmas luncheon head table. I am humbled to find myself in the company of so many charitable organizations, and individuals who are doing so much for the less fortunate in our community. I look forward to presenting this year's Empire Club Community Service Award to one of those individuals, Fred Gaby.

I know that it is usual for the lieutenant-governor to come here every year and give you a report, as it were, on what he or she has been up to since the last Christmas luncheon. Because I am relatively new in the position, I hope you will forgive me if, instead, I tell you something about what I hope to achieve in my new role.

As Ontario's first lieutenant-governor with a physical disability, the issue of accessibility is very close to my heart, and I have made it the over-arching theme of my mandate as lieutenant-governor. By accessibility, I mean more than curb cuts, widened entrances, and white wheelchairs on a blue sign. By accessibility, I mean inclusion in the political, economic, cultural, and social life of

this province. By accessibility, I mean that which enables people to achieve their full potential.

The latest figures from Statistics Canada inform us that there are more than 1.8 million disabled Ontarians, just over 15.5 per cent of the population. Over the next five years, I look forward to engaging in a dialogue with Ontarians about the challenges and achievements of people with disabilities. I have already had the opportunity to speak to many entrepreneurs and business people on the topic of hiring employees who also happen to have disabilities, and I have been encouraged by the willingness of so many of them to look beyond disability to hireability.

I hope that, when I come back to speak to you next year, I will be able to give you a very full report on my activities over 2008, and that it will include further advances in this area.

In the meantime, I would like to leave you with some words of Charles Dickens, the writer most closely associated with Christmas:

“Happy, happy Christmas, that can win us back to the delusions of our childish days; that can recall to the old man the pleasures of his youth; that can transport the sailor and the traveller, thousands of miles away, back to his own fire-side and his quiet home!”

I wish you all the very best of this blessed season, and a very happy New Year. In the name of the Queen, I send special greetings to the men and women of Canada’s military forces serving in Afghanistan and around the world, and to your families here at home. I want you to know that the thoughts and prayers of every Canadian are with you. God bless.

Thank you.

The appreciation of the meeting was expressed by Gareth Seltzer, Past President, The Empire Club of Canada.



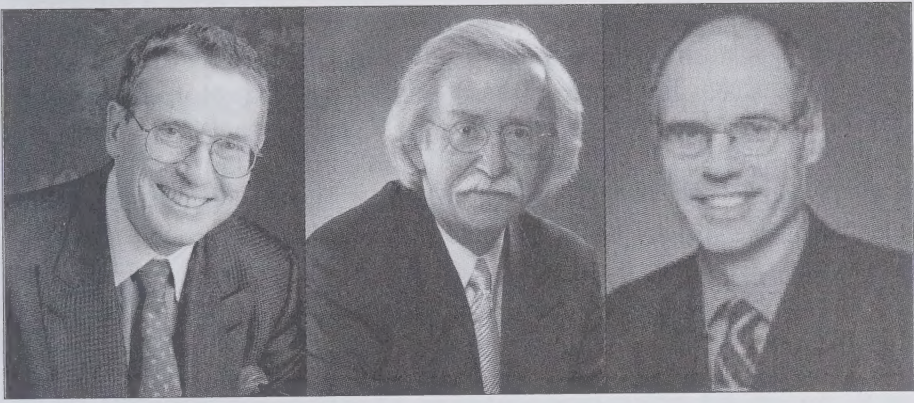
The Hon. David Onley, Lieutenant-Governor of Ontario, David A. Edmison, President, Martin Lucas & Seagram Independent Investment Counsel, and Past President, The Empire Club of Canada, and Fred Gaby, Executive Director of the Adult Disabled Downhill Skiing (ADDS) organization and Empire Club of Canada Community Service Award Recipient.



The Hon. Dalton McGuinty, Premier of Ontario, and Bart J. Mindszenty, Partner, Mindszenty and Roberts Corporation, and Past President, The Empire Club of Canada.



Past President's Dinner Attendees at the York Club.



January 3, 2008

Donald G. M. Coxe

Global Portfolio Strategist, BMO Financial Group

Nick Barisheff

President, Bullion Management Group Inc

Don Drummond

Senior Vice-President and Chief Economist, TD Bank
Financial Group

ANNUAL FINANCIAL FORUM

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

William F. White, President, IBK Capital Corp., and Director, The Empire Club of Canada; Thomas S. Caldwell, Chairman and Portfolio Manager, Caldwell Investment Management Ltd.; Edward Paul Badovinac, CET, KH, MMLJ, Retired Professor, Telecommunications, George Brown College, and Director, The Empire Club of Canada; Albert Contardi, Vice-President Compliance and Corporate Finance, PowerOne Capital Markets Limited; Robert J. B. Orviss, Becher

McMahon Capital Markets; Susan Wolburgh Jenah, President and CEO, Investment Dealers Association of Canada; Robert Cook, President, CNQ; Jay Smith, Vice-President and Director, CIBC World Markets Inc.; Margaret M. Samuel, CFA, Chief Investment Officer and Portfolio Manager, Quadrexx Asset Management Inc., and Director, The Empire Club of Canada; James E. A. Turner, QC, Vice-Chair, Ontario Securities Commission; Reverend Bruce Smith, King-Bay Chaplain, King-Bay Chaplaincy; Christina A. Cavanagh, Executive Director, Toronto CFA Society; Morley W. Salmon, Chairman, Limited Market Dealers Association of Canada; Keith McMeekin, President, Brant Securities Limited; Richard W. Nesbitt, CEO, TSX Group; and Peter Dymott, Managing Director, Fixed Income and Currencies, RBC Capital Markets.

Introduction by Catherine Swift

I don't envy our panel today in attempting to provide an investment outlook for 2008 at such a volatile time. With such factors as oil having hit US\$100 a barrel for the first time over the last few days, ongoing turmoil in financial markets stemming from the sub-prime lending fiasco in the U.S., a strong Canadian dollar threatening many industries here at home and more than the usual amount of geopolitical instability following such events as the assassination of Benazir Bhutto, predicting the events of the coming year will be even more challenging than usual. I commend our panelists today on their courage in taking on this task.

Our first brave soul is Donald Coxe, Global Portfolio Strategist with BMO Financial Group. His work is available to corporate and institutional clients in BMO Capital Markets and individual investors for Nesbitt Burns Private Client Group. He was ranked number one last year by Canadian institutional investors in the Brendan Woods survey, and has been top-ranked for many years. This week, BMO Nesbitt Burns launched a new commodity investment product following Don's investment thesis giving individuals the ability to invest in a strategically selected commodity index exposure—the Basic Points Weighted Commodity Linked Deposit Notes. He is the author of the book, "The New Reality of Wall Street," and is interviewed regularly on television and in the business press. Before he got into institutional investing, he was an Associate Editor of National Review magazine in New York, and a lawyer in Toronto.

Please join me in welcoming Donald Coxe.

Donald Coxe

For those of you who are still overinvested in banking and financial stocks and underweighted in commodity stocks what comes to mind is Leon Trotsky's statement made in the early thirties that the man who wanted to live a serene and happy life had chosen the wrong century to be born into. His dictum was justified three years later when Stalin's agent drove a pick axe into his brain.

The century that has begun is a century that has redefined the capital markets and is continuing to do so. It is the century in which billions of people joined the global middle class and much to the shock of the latte liberals and others they want what we've had. Shirley MacLaine said the Chinese will never make the mistake that we did with automobiles. They love their bicycles too much. That belief has been torn to shreds.

So from a capital market standpoint, the fact that we are entering our eighth year of the great commodity bull market should be no surprise. But the financial stocks are a disaster area of the market. What we have seen on Wall Street is the second worst display of unproductive investing that we've ever had. The worst of course was the tech mania which was the greatest collection of financial idiocy ever seen. We have seen a few geniuses in mathematics and physics and so forth creating products which have got out of control and are inflicting misery, not just among U.S. homeowners but on the global economy and on the stockholders of the organization that have egregiously overpaid them for years. One of the interesting things about this is that they have nothing to fear because even when their sins are exposed they're given going-away presents which are roughly equivalent to David Beckham's income for three years.

That kind of misleading, deceptive, misbehaviour has tremendous financial consequences and it takes a long time to work them out. So therefore, just as last year, the

worst group to be in was the financial stocks and the best was commodities because commodities are real things.

Our formula for investing is that you invest in unhedged reserves in the ground in politically secure areas of the world. Last year we added a new asset class to this group. It started with the mines and oils which were the agriculturals led by the fertilizer stocks and the farm equipment stocks, because the people who gave you \$100 oil and gave you \$3 copper by their middle-class moves have added meat and dairy products to their diets. I saw this when I took a month's leave of absence in India a year ago. What they are doing is repricing food. The greatest challenge in the world is not \$100 oil. It is getting enough food so that the new middle class can eat the way our middle class does. That means we have got to expand food output dramatically, despite the fact that we have had a 17-year winning streak in the U.S. Midwest for growing weather which is where 54 per cent of the world's corn is produced. At some point that winning streak will end and then we will have a food crisis which in economic terms will be the greatest ever seen. That's the downside.

The upside is that you have the opportunity as investors to participate in the solution to this problem because although we can't create new oil, and the attempt to do it through ethanol is a misguided venture, what we can do is increase yields in crops around the world something close to what they are in my adopted home state of Illinois, which is over 200 bushels to the acre. The rest of the world does about 30 bushels of corn per acre. That will be done with more fertilizer, with genetically modified seeds, and with advanced machinery and technology. There are about two dozen stocks in the world that are going to redefine the world's food supplies and those stocks will have a precious value as we move forward.

So the investment strategy for the coming year is that the cornerstone of any investment strategy must be to recognize that food price inflation is coming. It's going to hit this year hard. We have got a year-over-year growth in U.S. raw food costs at 22 per cent, and six and a half per cent at the consumer level, but this bulge in the pipe is gradually going to work its way through the system. So what you have seen now in terms of fuel inflation is going to come with much more pain and food inflation. You should be therefore fully hedged by having access to those stocks that benefit from rising food prices. That's a good start.

Secondly, interest rates have been depressed to ridiculously low levels for a variety of things—foreign exchange funds, sovereign wealth funds. That will gradually give way so you are going to look to, over the next couple of years, rising interest rates, rising inflation, and we will come out of any economic downturn caused by Wall Street, just as Wall Street gave us the recession of 2001 which was unnecessary. The boom that will come thereafter will make the commodity boom that we have seen up until now a rather trivial event.

I get to speak to the Empire Club once every 10 years. If I get invited back nine years from now, I will talk back to the time when food prices seemed so low and the stocks of food companies seemed so cheap.

Thank you and for those of you who are invested my way I promise you a very happy new year.

Introduction by Catherine Swift

Our second panelist is Nick Barisheff, founder and President of Bullion Management Group, which is a full service bullion boutique dedicated to providing investors with a cost-effective, convenient way to purchase and hold physical bullion. Widely recognized as a Canadian bullion expert, he has written numerous articles on bullion and other current market trends that are published on various news and business Web sites. He has been interviewed for many national publications, and appears monthly on Financial Sense

Newshour. He has been actively involved in the finance and investment business for over 30 years. His career began in the 1970s at the Investment Division of A. E. LePage in Toronto. He created the concept of Bullion Fund, which is Canada's first and only RRSP-eligible, open-end mutual fund with a fixed investment policy of purchasing equal dollar amounts of gold, silver and platinum bullion.

Please join me in welcoming Nick Barisheff.

Nick Barisheff

I am honoured to be invited to present the investment outlook for precious metals in 2008, as well as provide some insights into the longer-term trends. Since commodities are priced in U.S. dollars, price references will be in U.S. dollars.

Yesterday, gold surpassed its 1980 intraday high, closing at \$857/ounce. Platinum surpassed its 1980 high of \$1,070 in 2006, and yesterday closed at \$1,539. This makes future price predictions difficult, since we are now in uncharted waters.

In contrast to the 1980 price spike, the current rise in precious metals is sustainable and, most importantly, is occurring in all major currencies since August 2005. It will come as a surprise to most that in 1980, gold only surpassed \$800 per ounce on two trading days. In 2007, however, gold was above \$800 on 22 days. The peak monthly average price of \$675 was surpassed five times in 2007.

In my January 2005 address to the Empire Club, I stated that it didn't really matter whether gold was \$400 or \$500 per ounce that year, because the price was destined to go much higher. Since then, in U.S. dollars, gold has increased by 95 per cent, silver by 131 per cent, and platinum by 81 per cent.

For 2008, the gold price forecast ranges between \$725 and \$1,100 per ounce, and I still say that whether the price is \$700 per ounce or \$1,100 per ounce, it will not matter in the long term. Unless the underlying factors

causing the recent price increases reverse, precious metals prices will continue to rise in all currencies in 2008 and beyond.

Since the Canadian dollar is expected to stabilize at or below current levels this year, price increases in Canadian dollars should match those of U.S. dollar increases.

The implications of this price rise have been largely misinterpreted and misunderstood. Consequently, precious metals are still absent from most portfolios. Many investors believe that gold is merely a commodity like copper or lead, with limited industrial uses. One investment manager typified this commonly held view when he said, "I have no use for gold. You can't eat it and you can't put it in your gas tank."

Often, precious metals price increases are attributed to jewellery demand. While jewellery is an important demand factor, particularly in South East Asia, it is not viewed there as a mere adornment, as in western countries. Gold and silver are considered to be monetary assets that can be used to preserve real wealth from generation to generation.

Precious metals' price increases are not due to simple commodity fundamentals, but rather to precious metals' monetary role as a store of value. Gold and silver have been used as money for over 3,000 years, and platinum for several hundred years. Today, they are still used as stores of wealth and as inflation hedges by the world's richest families. They are held as currency reserves by central banks the world over. Although there is considerable controversy over central banks' leasing of gold, their current gold holdings are still reported as approximately 928 million ounces. And while western central banks have reduced their holdings, Asian and Russian central banks have increased theirs.

The fact that most banks and brokerages trade gold at their currency desks rather than their commodities desks further attests to gold's monetary role. The net turnover

of about \$15 billion a day in physical gold bullion by the members of the London Bullion Marketing Association also confirms gold's current monetary role. Although the daily volume is unpublished, estimates are that volume is between \$100 and \$150 billion per day.

Clearly, this is not jewellery demand but gold trading as a currency.

If we acknowledge that gold has a monetary role in today's world, what does its rising price indicate?

Analysis of the economic statistics can lead to a variety of conclusions, but a rise in the price of gold is essentially a vote of non-confidence in paper currencies, and a leading indicator of future inflation.

Many global investors may now be concerned about counter-party risk and what may turn out to be the worst financial crisis the credit markets have ever seen. In addition, the explosive growth in derivatives, new highs in the oil price, unsustainable U.S. consumer debt, and a possible unwinding of the yen carry trade provide plenty to be concerned about.

However, the major cause of gold's rising price is the unprecedented global increases in money supply, and the resulting inflationary implications. While popular belief holds that inflation is an increase in the Consumer Price Index, the classic definition of inflation is an increase in the money supply, which results in price increases.

Over the past year, the money supply has increased by:

8 per cent in Canada;

12 per cent in the U.K.;

12 per cent in Euros;

14 per cent in Mexico;

16 per cent in Brazil;

18 per cent in China;

21 per cent in India; and

42 per cent in Russia.

Although the U.S. Federal Reserve discontinued reporting of M3 in March 2006, several sources have reconstructed the data and have determined that the money supply of the world's reserve currency is now growing at an unprecedented annualized rate of 16 per cent. Since 2005, the U.S. money supply has increased from \$10 trillion to a staggering \$13 trillion.

Increases in money supply will likely accelerate, since central banks have announced they are prepared to provide unlimited amounts of liquidity in an attempt to maintain solvency and avoid a systemic financial crisis. The inflationary implications of this policy should be obvious.

Gold's role in predicting inflation, as well as hedging against it, has been documented by several sources. Various studies have concluded that gold, silver and platinum are the best leading indicators of inflation. Of the three metals, platinum is the best. Given that platinum increased by 37 per cent in 2007, and has surpassed its 1980 all-time high by nearly 43 per cent, the future outlook for real inflation indicates dramatic increases.

Financial media generally use the Core Consumer Price Index as a measure of inflation. It, however, is only useful for people that don't eat or use energy.

Even the full Consumer Price Index has been relatively dormant, rising from an annualized rate of 2.5 per cent earlier in the year to an annualized rate of 4.3 per cent in November.

Even with this recent increase, the CPI understates and lags real inflation.

It is important to understand that the methodology used to calculate the CPI was changed in the early 1990s, and new concepts such as substitution and hedonic adjustments were introduced. If the pre-1990s methodology was used today, the CPI would now be in excess of 8 per cent.

And it's not just precious metals that are pointing to much higher inflation rates. The Producer Price Index has increased by 7 per cent, commodities prices by 17 per cent, and oil by 57 per cent.

In establishing asset allocations for the coming years, a realistic view of inflation is crucial. Real wealth management must take into account real inflation. If real inflation is already at 8 per cent, then long-term bonds are not really a safe investment, but rather a guaranteed loss of purchasing power. And while the equity indexes may make new highs in nominal terms, they will likely experience losses in real terms.

As we begin 2008, one thing is undeniable: the gold price has been steadily rising in all currencies since the summer of 2005, and that rise is now accelerating. Since climbing precious metals prices are an accurate indicator of future inflation and other economic vulnerabilities, investors would be prudent to structure their portfolios to minimize the effects of rising real inflation, and protect their wealth from systemic financial risks.

According to studies by Ibbotson & Associates, precious metals are the most positively correlated asset class to inflation. From a strategic viewpoint they concluded that an allocation between 7 and 15 per cent to gold, silver and platinum bullion can reduce risks and improve returns over the long term. To hedge against inflation, or for a tactical allocation, much higher percentages would be required.

While we can debate appropriate percentage allocations, the fact remains that most portfolios have no allocation to precious metals whatsoever. As a result, they are not protected from inflation or other systemic risks, and are neither balanced nor diversified.

While mining stocks, precious metals proxies and derivatives may provide some exposure and speculative trading opportunities, real long-term wealth preservation requires fully allocated, segregated and insured bullion as

the foundation of every portfolio. As we have recently experienced, the counterparties to Corporate Debt Obligations and mortgages, may default. The counterparty risk in many derivatives, which Warren Buffet calls "Financial Weapons of Mass Destruction," is unknown. Since bullion is neither anyone else's liability nor promise of performance, only it can provide protection against both systemic financial risks and monetary inflation.

As the price of gold, silver and platinum continues to rise there will eventually be a reallocation from financial assets, which now exceed \$187 trillion, to precious metals by mainstream investors. Since aboveground supplies of precious metals total less than \$4 trillion and there is only \$600 billion in privately held gold bullion, substantially higher prices are inevitable.

When that reallocation begins, gold at \$1,100 per ounce will look like a bargain.

Thank you.

Introduction by Catherine Swift

The last panelist is Don Drummond, Senior VP and Chief Economist for TD Bank Financial Group. Don joined the federal Department of Finance upon completing his studies in Economics at Queen's. During almost 23 years at Finance, he held a series of progressively more senior positions in the areas of economic analysis and forecasting, fiscal policy and tax policy. His last three positions were, respectively, Assistant Deputy Minister of Fiscal Policy and Economic Analysis, Assistant Deputy Minister of Tax Policy and Legislation and most recently, Associate Deputy Minister. He joined TD Bank in June 2000 as Senior Vice-President and Chief Economist. He leads TD Economics' work in analyzing and forecasting economic performance in Canada and abroad. He travels widely across Canada and abroad, speaking to TD clients and various groups about the Canadian economy and its prospects, and he is frequently quoted by media on economic and policy issues.

Please join me in welcoming Don Drummond.

Don Drummond

I'm very fortunate to be here because after I agreed to speak to you today I was summoned to jury duty and told that if selected I would be in the jury process all week. I can give you a tip. In case the same thing happens to you, it does not count as a legitimate excuse, that you can't do it because you are speaking to the Empire Club. I don't know if that says anything about the status of the Empire Club. What did do the trick is I went on Monday for the interview process and they asked me whether I'd forecast that the dollar would be at parity and I said, "Not even close." So they told me to go and speak to the Empire Club. So here I am. I will try out my forecast on you.

The section was billed as equity fixed income and commodities and you have heard quite a bit about commodities, so I will try to deal with the equity and the fixed income. This is no surprise. As an economist I will give you a bit of an economic context for that.

The world economy has been motoring along at over 5-per-cent growth for many years now. Five years in a row. We do think it will slow down to about 4 1/4-per-cent growth in 2008, so about a percentage point off the growth, certainly taking some of the steam out of that, but still not a bad outcome. If you look at the average world growth in the last 30 years it's been 3 3/4 per cent so it is still above that average. We expect most of the major economies to slow down to the 1 3/4 to 2-per-cent range, so that would include the United States, Canada, and Europe as a block. An exception within that would be Japan, which will be quite a bit slower than that, probably only about 3/4-per-cent growth.

I find myself in an odd place talking about the U.S. because for a couple of years, partly by design, I was at the bottom end of forecast talking about some untoward things that were happening in the U.S. Most other forecasters kept ploughing ahead and now a lot of people

have leaked over, so I try to convince people that things are going to be a little bit ugly in the U.S. Now I've almost kind of convinced people that it is not going to be quite as bad as some were expecting so why do I not expect that?

Well we are all focusing on the sub-prime and what that is doing to the residential housing sector. That is only one-twentieth of the economy. That is itself not a big deal and there are some off-sets. Government spending has been going at a fair clip. Business investment and corporate balance sheets are in great shape. Exchange rate depreciation is performing its magic. Exports are growing much faster than imports. Ultimately it comes down to the consumer and I do think that the key catalyst that is slowing the growth in the U.S. will be slower consumption but I don't think it will collapse.

There is one scenario out there. It is an interesting time to be an investor and an economist because there is a great deal of uncertainty and it is coming from that financial side. If you look at a lot of those big investment houses, if you look at some of their type 3 assets, that risky category, they are triple and quadruple the amount of capital and they could face write-offs in the one-third range. So they might not be worth an awful lot. What would that do to the economy? We really haven't been in that kind of situation. I think it will do some damage but I'm presuming that there will not be a major financial system collapse and the economy will get through that, albeit with somewhat slower growth.

So what would you expect then in that kind of environment for equity markets?

My starting point is the equity markets and the major markets seem to be appropriately priced if you look at P/E ratios and other indicators. Corporate profits are going to grow and in an environment of only 2-per-cent growth and another 2-per-cent inflation you wouldn't think corporate profits would grow much faster than 4 or 5 per cent. Get some risk premium and there's dividend

payouts so I would expect in most of the economies you would see 7 to 8-per-cent gains on equity markets, probably a little bit better than you might think in a consensus forecast looking at the doom and gloom from the economy. But remember a lot of that's already factored in.

There will be a lot of volatility, which I think could be favourable for people who are fairly active traders: the volatility that largely comes as company after company reveal their actual exposure to some of these risky markets. We haven't even begun to scratch the surface of where all this sub-prime debt is located around the world. We will get a much bigger picture when there are revelations as we have seen since the summer. There will be some setbacks in the markets but I think that they'll ultimately recover from that. I look for the U.S. market to do a little better than the Canadian but I suspect that the previous two speakers will probably say something a bit different from that. My thesis would be a little bit slower world growth will keep the cap on commodity prices. I agree that they will be strong in the future. I don't think particularly strong in 2008 and I think that will hold the Canadian market back a little bit vis-à-vis the U.S. market, but the U.S. and the European markets will do quite well on the equity front.

An interesting situation in Canada is that many people have their investments outside Canada particularly in the United States. I don't know if that is appropriate, with the head of the TSX right beside me. In part it is because of the TSX being overweighted in commodities, which again would be a great thing if you followed the forecast of the two previous speakers.

Finally on the fixed-income markets, in this economic context I do expect some more central bank rate cuts but not an awful lot and not anything like we saw in 2001 and 2002. Only one more cut of 25 basis points from the Bank of Canada. Two more from the Federal Reserve at 50 basis

points. That's not going to give a big lift to either the fixed-income markets or to the equity markets.

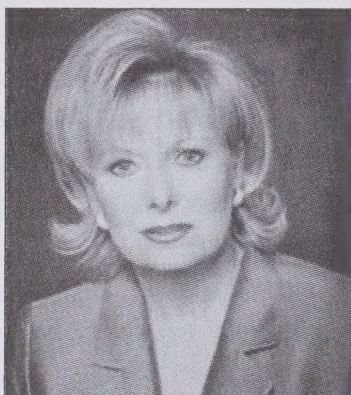
We think that the bond markets will be fairly forward looking as there does seem to be some stabilization in U.S. housing and the downside seems to be somewhat limited. In these major economies we look for fixed-income markets to be fairly stable. Look for a 10-year treasury to creep up towards the 5-per-cent mark as we move into 2009. The 10-year Canadian bonds creeping up to about 4.5 per cent so limited returns and I think I'll end it there.

I wonder why the sub-prime happened, why did some of these other markets get out of equilibrium? I think the root cause was that people were dissatisfied with their portfolios of getting 3 1/2 to 4 1/2-per-cent rates of return when they were largely invested in fixed income. I think that is the kind of norm and I would expect that over time people will become more comfortable with those types of rates of return and will not be racing so far out the risk curve and taking these unknown and fairly high degrees of risk.

So in capsule look for equity markets in that mid-to-high single-digit rates, fixed income in the 4 to 4 1/2-per-cent rate, some further weakness in the Canadian dollar and that will generally cap the declines we have seen in the last couple of years in the U.S. dollar.

Thank you.

The appreciation of the meeting was expressed by Margaret M. Samuel, CFA, Chief Investment Officer and Portfolio Manager, Quadrex Asset Management Inc., and Director, The Empire Club of Canada.



January 10, 2008

Pamela Wallin

Senior Advisor on Canada-U.S. Relations to the President of the Americas Society and the Council of the Americas in New York

THE CANADA-U.S. RELATIONSHIP

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Don McCutchan, Partner and International Policy Advisor, Gowling Lafleur Henderson LLP, and Third Vice-President, The Empire Club of Canada; Neila Bazaracai, Grade 12 Student, North Toronto Collegiate Institute; Reverend Vic Reigel, Honorary Chaplain, Christ Church Brampton; Bonnie Brownlee, Senior Vice-President, Corporate Communications, CTV Globemedia; Doug Knight, President, St. Joseph Media Inc.; Dr. Alan Wildeman., Vice-President Research, University of Guelph; Jo-Ann McArthur, President, Jo-Ann McArthur Strategies Inc., and First Vice-President and President-Elect, The Empire Club of Canada; Terrence O'Sullivan, Partner, Lax O'Sullivan Scott LLP; and John R. Nay, Consul General, U.S. Consulate General Toronto.

Introduction by Catherine Swift

It is difficult to overestimate how much our world has changed as a result of the events of September 11, 2001. For us here in Canada, the impact of those horrific events was profound in every way,

affecting our economy, our safety and security and our relationship with our most important ally, the United States.

Canadians' relationship with Americans has had its ups and downs, to put it mildly, over our long shared history, and perhaps no more so than in the years following 9-11. As you will recall, a number of Canadian politicians during that period took the opportunity to take pot shots at American leaders and Americans in general, while at the other end of the spectrum many of us flew U.S. flags and made other symbolic shows of support for our U.S. neighbours. Although most if not all Canadians would think that Canada has every right to disagree with the U.S. on policy issues, many questioned why it was necessary to be disagreeable in the process. The ensuing war in Iraq also provided the opportunity for fractious debate between our two nations, usually providing much more heat than light on the subject.

Our speaker today was right in the thick of those times, and is here today to share her perspective on an important time in our history and our vital relationship with the U.S.

Lily Tomlin once said, "I always knew I wanted to be a somebody, but now I realize I have to be more specific." Our speaker today, Pamela Wallin, is a true Canadian somebody. Accomplished in many areas, most of you will know Pamela from her long and successful media career including positions with CBC radio, the Ottawa bureau chief of the Toronto Star and host of Canada AM for several years. She went on to become CTV Ottawa bureau chief, and anchored the CTV weekend news. In 1992, she became the first Canadian woman to co-anchor the nightly national television newscast, Prime Time News.

In 1995, she founded an independent television company, Pamela Wallin Productions, through which she hosted and produced a live nightly interview program. She also hosted the Canadian edition of "Who Wants to be a Millionaire," garnering the highest rating ever for a network production.

Pamela has dedicated much of her professional career to coverage of the Canada-U.S. relationship, and in November 2001 she travelled to New York to host the highly successful "Canada Loves New York" rally to show support for the American people post 9-11.

In 2002, Prime Minister Jean Chrétien appointed Pamela to a four-year term as Consul General of Canada in New York. She has 13 Honorary Doctorates and sits on many boards, including CTVglobemedia and an advisory board for BMO Harris Private Banking. She has received many honours including being an Officer of the Order of Canada. She is currently the Senior Advisor on Canada-U.S. relations to the President of the Americas Society and

the Council of the Americas in New York. She was recently appointed to the Independent Panel on Canada's Future Role in Afghanistan by Prime Minister Harper. She has also somehow found the time to author three books, including her best selling autobiography, "Since You Asked," and a book on cats. Please join me in welcoming Pamela Wallin.

Pamela Wallin

Thank you for the kind words of introduction.

Madam President, Catherine Swift, a friend of many years, U.S. Consul General John Nay, head table guests, former colleagues and still good friends from the Consulate in New York and our American friends:

I am honoured to have this opportunity because I have dedicated many years of my life to studying, reporting on and living the Canada/U.S. relationship.

First, let me declare a small bias. Next to Wadena, Saskatchewan, my hometown, New York City (NYC), is one of my favourite places on earth.

The famous essayist E. B. White captured it: "Wherever you sit in NYC," he said, "you feel the vibrations of great times and tall deeds." And New Yorkers themselves are so high energy and compelling.

But of course most other Americans are quick to point out that NYC is simply an island off America and is totally unrepresentative of the rest of the country.

When a New Yorker asks me where I am from, I say the Canadian mid-west—a place called Saskatchewan.

A puzzled look would creep across his or her face, so I would quickly volunteer, "Go to Minnesota or North Dakota and turn right." The puzzlement would deepen, as they of course have no idea where that is either!

It seems that even in 2008, with free trade agreements, a borderless media world, and more than 100 million border crossings by our citizens each year, historian Bartlett Brebner's decades-old observations still hold, troublingly true. "Americans," he wrote, "are benevolently ignorant

about Canada, while Canadians are malevolently well informed about the U.S.”

Or as one Canadian political wit once said: “They are our best friends whether we like it or not and we are their best friends whether they know it or not!”

When I arrived in New York, I set about seeking advice on what a Canadian diplomat could and should do to win influence and access in the U.S. The answer was always the same—just try understanding the place instead of thinking you already know it. Canada, I was repeatedly told, too often seeks to engage America by wagging its fingers and proclaiming its values, policies and political systems as superior.

On a good day and with the best spin possible, this moralizing reflects a value system of sharing, tolerance, civility and diversity that we enjoy at home and therefore wish others to have and experience. But more often, in the eye of the beholder, it is seen as the hectoring of others who believe in their own virtues and see no need to adopt ours.

Dean Acheson, whose family came from Toronto and who went on to become an American Secretary of State, described Canada as too often the “stern daughter of the voice of God.”

Now I could—and often did—put that right back at them, but it was my mission as my country’s representative to understand my host country and to convey and often translate those messages home as well as explain our message to our southern neighbours.

The diplomat’s job is the reporter’s unrequited dream—a chance to live and breathe another place, to come to know its nuance and nature.

But I digress.

Not surprisingly, this hectoring strategy doesn’t work. Not even if you’re right!

In the first place, Americans are quite rightly proud of who and what they are and their values. And so it begs

the question, “Why do we want them to be just like us when we don’t want to be just like them and why do Canadians tend to think our system is inherently superior rather than simply different?”

There is a wonderful stat in a Pew Research poll. Ninety-one per cent of Americans define themselves as “very patriotic.” An even higher number believe, that given the opportunity, anyone, regardless of race, religion, creed or colour, would move to the U.S.A. if given a chance. We always smile, perhaps even smirk at the comment, but the immigration numbers, legal and illegal, attest that it is true.

Many see it as arrogance or blind patriotism but I, for one, envy that national pride—and yes, perhaps there is a naiveté—but it’s hopeful and proud. And the anti-Americanism that is so in vogue these days is not a very useful or constructive response. We express these views at our peril not for fear of some punitive American retaliation but because it is the antithesis of what we purport to be—open, welcoming and generous people. And in my view “not being Americans” does not qualify as an affirmation of Canadian sovereignty.

A relationship is not a zero-sum game. We are not enhanced by diminishing them, their loss is not our gain, and we do not grow at their expense but because of our proximity to them. In a relationship as large and as complex as this, there will always be disagreements but when we disagree, we should do so agreeably.

That said, getting along doesn’t always mean going along.

We are different and independent countries with different political systems. Try understanding the U.S. electoral college system—the Iowa caucuses, the primaries. The only thing more complicated would be to explain minority government or worse yet, separatist federalists to an American, folks they would clearly see as treasonous.

The very history and settlement and development of the two countries have shaped us differently.

For example, Americans often use philanthropy to accomplish what we would ask government to do.

But I have also come to believe that there are many more differences within our countries than between them. We both have our red and blue states although the colours are reversed here.

The east and west coasts are more similar across borders than they are across countries

We are both wrestling with health-care issues. They ration with money, we ration with time and neither system works all that well given the demographic pressures, the rural urban divides and growing disparities between the haves and have-nots.

If the first act of all persuasion, which is, after all, diplomatic job one is clarity of purpose, then that is where we must begin. So we need to get beyond the stereotypes and the myths that persist, despite the proximity and the fact that nine out of 10 of us live within spitting distance of the border. Americans as the big, brash, arrogant gun-toting bullies and Canadians as those timid, but oh so nice, park rangers, who dwell in the northern wilderness and stand freezing but dutiful at red lights at 2 a.m. is out of date.

One of my favourite New Yorker cartoons captures the sentiment. A couple is sitting sipping martinis and he says to her, "You seem familiar, yet somehow strange. Are you by any chance Canadian?"

So how do we deal with this relationship in everybody's best interest?

A former British Prime Minister Harold Macmillan was once asked what made his job most difficult. "Events, dear boy, events," he replied.

Predicting, controlling or managing the myriad events that erupt and making them more predictable is key.

We too often fail to influence the system because we don't understand it. For example, Congress—not the White House—is where much of the power resides. Many Canadians seem to think that if only the Democrats were elected, things would be better, but we can't confuse shared social attitudes with special status on economics or security issues. Protectionist sentiment is alive and well in Democratic ranks. And NAFTA would be in some jeopardy.

We make the classic mistake of personalizing our foreign policy. It's not about whether we love or hate George Bush or Bill Clinton, or Hillary or Huckabee for that matter; nor is it about whether we love or hate the war. It is about what is in our own best interest, economically and strategically, and how we best manage this relationship—politics aside—for the benefit of Canadians and in a way, which secures our role in the larger world.

We are a creative and innovative people. Who else could have created this great east-west act of faith known as Canada against all odds and the seductive tug and pull of the natural north/south trade routes? Sometimes we have been complacent, assuming the benefits and protections of living next door to a superpower.

Our north-south trading block should be bracing and working together to meet the challenges of globalization and the rise of other powerful trading areas. We need to be and be seen as more than “Mexicans with sweaters” to borrow a phrase from Andrea Campbell's book, “Why Mexicans Don't Drink Molson's.” And not a day went by in my time as Consul General that I was not thankful for the free trade agreement because it offered some way to manage or at least negotiate our differences, if not always settle them.

We are easily side-swiped by economic problems south of the border—a sub-prime mortgage meltdown, America's indebtedness, recession fears.

Let's hope history repeats itself. In election years, the pollsters tell us, and this dates back to 1964, the U.S. GDP has always outpaced the previous year.

But our borders are thickening. The 140 or so such land crossings have become choke points fraying nerves and frustrating governments and hurting productivity and competitiveness. And while the Mexican border remains a huge challenge, the northern border should be one of opportunity, but it's not always the way Congress sees it nor are we inclined to compromise, to best exploit our advantage.

The reality is that our economies are "integrated." It is also true that the relationship is asymmetric because of the relative size of the two economies, period. Ten times in fact. That asymmetry does not imply that we are subservient, just smaller. But as the smaller partner in the relationship, it falls to us to do the heavy lifting.

We insist on defining the relationship in economic terms and they respond by speaking our language. The former U.S. ambassador put it bluntly raising the ire of so many Canadians: "Security trumps trade," he told us, and he was right then and it will be the context for our relationship for a generation to come.

Can you imagine any of the presidential contenders in either party declaring that everything is okay. Put your belts and shoes back on, pack that five-ounce can of hair-spray with impunity, the borders are wide open, come on in. That is not going to happen.

And because we both want and need the trade to continue, open borders are crucial provided those open borders are secure ones.

You know the stats:

- \$2 billion worth of goods and services cross the border everyday;
- 25 per cent of all American exports come to Canada; we are the largest market for 39 of the 50 states;

- Canada sells more of its output (87 per cent) to the U.S. than we consume at home, making us our own second-largest trading partner! This trade generates 40 per cent of our national income;
- America is our largest source of foreign direct investment;
- We do more business with the U.S. in one week than we do with China in a year; and
- We do more trade with Home Depot head office in Atlanta than we do with the country of France.

So open borders are crucial, provided those open borders are secure ones.

I use the analogy of a corner store. If you sold 87 per cent of everything off your shelves to one customer, would you not want to know everything and anything about them—their likes and dislikes, whether they are Pepsi or Coke people. Wouldn't that be the best way to serve your customer and make your business profitable?

It is in our interest to know our largest customer. The reality is we are friends and relatives, we play on each other's hockey teams, attend each other's universities, and work for one of the thousands of cross-border companies. We invest in each other's entrepreneurship and vacation in each other's backyards. Our comedians, songwriters and authors entertain and our journalists deliver the news to American homes and we all—on both sides of the 49th—readily consume the culture that Canadians have helped create.

It is said that each person's life is lived as a series of conversations. For me that is quite literally true, although many have taken place in the glare of the television cameras. And from each—well, almost each—one, I discovered that if you listen, you will learn.

The actor Alan Alda put it this way: "Listening is the ability to be changed by the other."

We know from our own relationships, that the ability to actually hear what is being said by someone is one of

life's valuable skills. And as someone who has lived and worked in the U.S. and cross border for the last six years, this is no less valuable a skill when it comes to the relationship between countries.

In the months after 9/11, NYC was a powerful Rorschach test.

We each saw in the city—and in the faces of its people—our own fears, doubts, and even though strong emotion may not be typical of all Americans, it was and is of those who make daily and key decisions about our future.

Too often some of our leaders were simply insensitive to the temper of the times and the full force of the attack and even a fundamental disagreement over the war or disdain for a president, personally or politically, should not have blunted our sensitivities to the true nature of the violation that Americans felt or to the reality of our own vulnerability.

Remember the FLQ crisis and our reaction when we felt attacked. The War Measures Act, in its day, was at least as draconian in its word and deed as the Patriot Act.

Remember Air India where we still await justice or the shocking though not surprising discovery of so-called homegrown terrorists. And remember Bali, Madrid, Beslan, London and several dozen other places. The terrorist does not just target the U.S.A.

I was shocked and troubled by the attitudes shown in a recent poll here in Canada. It found that more than one in five Canadians believe that the events of September 11 were orchestrated, not by al Qaeda terrorists, but by Americans who were eager for a war with Iraq. This so-called analysis in a country that quite rightly boasts of its superior education and openness is a blame-the-victim approach that would not be tolerated in another context, so why this one?

We feel we can comment on their domestic policy matters with impunity while we would take great offence if they did the same.

Consider the language with which we criticize the Americans such as bastards, morons. If we used such language about any other group... well we simply wouldn't.

In the post-9/11 world, we can't risk simplistic or nationalistic or ideological reactions, or smugness. There is simply too much at stake. We need a much more dispassionate sense of how Americans think and work and feel and see the world and see us. And they too need to come to know others, including us, much better. As William J. Fulbright said: "In the long course of history, having people who understand your thought is much greater security than another submarine."

We all want to stop terrorism and secure our citizens' safety and promote democracy and civility. And Canada, historically, is not a spectator nation. So while we may well have different means to a desired end, that desired end is more often than not the same.

Is it not our responsibility to engage and offer a different perspective but to do so with a common purpose in mind? Call it constructive engagement—an ability to confront and challenge one another but without the need to establish moral superiority. For example, we need our friends to recognize and respect our concerns about sovereignty if we are to help them address their concerns about security.

In the end, it's all about communication and understanding and confidence.

We are all touched by so many people who change our course. Although I have met him I never had a chance to interview him, but being in his presence was nothing short of inspiring and his words are wise and very relevant to Canada today. Nelson Mandela in his inaugural speech in 1994 after decades in prison as he was to become president of his country said: "Our deepest fear

is not that we are inadequate...Our deepest fear is that we are powerful beyond measure...It is our light, not our darkness, that most frightens us...but playing small doesn't serve the world."

Ladies and gentlemen, Canada should heed the words of the wise man and let our own light shine.

I leave you with the words of the late great American journalist Sydney Harris.

"An idealist," he said, "believes the short run doesn't count.

"A cynic believes the long run doesn't matter.

"A realist believes that what is done or left undone in the short run determines the long run."

Every day each decision we make about our relationship with the United States will determine our long run—our future. These decisions must be deliberate acts, conscious choices. And most importantly, we must find that willingness to listen and actually hear what is being said by the other.

The appreciation of the meeting was expressed by Jo-Ann McArthur, President, Jo-Ann McArthur Strategies Inc., and First Vice-President and President-Elect, The Empire Club of Canada.



Major William A. Duncan, Honorary Director, The Empire Club of Canada, charming a lady, Pamela Wallin, Senior Advisor on Canada-U.S. Relations to the President of The Americas Society and The Council of the Americas in New York.



January 16, 2008

The Hon. Steven W. Mahoney

Chair, Workplace Safety and Insurance Board of Ontario

WORKPLACE HEALTH AND SAFETY

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Stephen Hewitt, Manager, Corporate Communications, Corporate and Public Affairs, TD Bank Financial Group, and Director, The Empire Club of Canada; Jade Yee, Grade 11 Student, Eastern Commerce Collegiate Institute; Reverend Michael Clarke, Associate Priest, Christ Church Brampton; Bruce Neville, Principal, Nexus Actuarial Consultants Ltd.; Jill Hutcheon, President, Workplace Safety and Insurance Board of Ontario; John C. Koopman, Partner, Spencer Stuart, and Past President, The Empire Club of Canada; Violet Konkle, Chief Operating Officer, Walmart Canada; Dwight Willett, Executive Vice-President Corporate Services, Bruce Power; and Buzz Hargrove, President, Canadian Auto Workers.

Introduction by Catherine Swift

Systems of workers' compensation have only been around for about 100 years, originating during the second phase of the industrial revolution when the concept of "workplace accidents" became more widely recognized. Workers' compensation came about as an alternative to the court system to determine compensation for

people injured on the job. The trade-off was that workers gave up the right to sue employers in exchange for a compensation program financed by employers. Workers' comp was actually Canada's first social program, being established in Ontario in 1915 and then rolling out to other provinces shortly thereafter.

Like everything else, workers' comp has become much more complex over the years. When initially the types of injuries covered would be more or less straightforward, now there are debates around whether such things as stress should be considered compensable, as well as discussion around environmental factors and occupational diseases, and how long-term exposure to certain working conditions may or may not lead to workplace injury. As well, many present-day workers' compensation agencies also spend a great deal of their time promoting workplace health and safety issues so that accidents can be minimized if not eliminated. Heading up a workers' compensation agency is a pretty challenging place to be these days.

Our speaker today, the Honourable Steven Mahoney, has been Chair of the Workplace Safety and Insurance Board since May 2006. He was first elected to public office in 1978 as a councillor in Mississauga, and following that ran provincially and was elected MPP in 1987, serving as the Chief Liberal Whip during his time at Queen's Park. He successfully ran federally in 1997, and in April 2003 was appointed to the federal cabinet as Secretary of State for Crown Corporations.

In 2004, he returned to the firm of Mahoney International, a private consultancy specializing in guiding entrepreneurs in developing effective business strategies. He has also been active in his community, supporting the development of a major public garden park in Mississauga and the Hospice of Peel. He and his wife Katie, a city and regional councillor in Mississauga, continue to be active supporters of Community Living Mississauga, which serves people with developmental disabilities, and Interim Place, which supports women and children affected by domestic violence.

Please join me in welcoming Steve Mahoney.

Steven Mahoney

I do want to acknowledge a couple of people. First of all, my wife Katie is a city councillor in Mississauga, Ward 8. She has five grandchildren by the way; I know that's hard to believe, but I guess I do too. I was given the choice of having Hazel or Katie come with me because apparently

only one of them can be out of the city at the same time, so I chose Katie. I think that was a smart thing to do.

We also have some board members who are here with us today. We have Larry Barnett from the Teamsters, a member of our board.

We have Loretta Henderson, who's come in from Windsor. Loretta is over here—a board member as well.

And while I haven't seen her and she's a shadow of her former self, I am told that my former colleague and great friend and someone who is now helping us at the WSIB with some of the health issues that we're facing, Eleanor Caplan, is here as well. I haven't seen Eleanor but I think she's in the room. Thank you for coming.

I want to introduce somebody who I think is very special. I want to acknowledge Bonnie Crombie, who has been nominated to run in Streetsville. I know Bonnie and her husband are here and they are great friends and supporters.

I also just want to take a minute, if I may, to acknowledge the presence of the Chairman of GO Transit, Peter Smith. Peter and I have a long history together. Peter, I have the job of eliminating fatalities and injuries in the workplace; you have the job of making the trains run on time. I'm not sure who has the bigger challenge, but I wish you well and know you'll do a great job at GO Transit and the province is thankful for your service.

There's something I want to show you before I continue with my remarks. If I could ask the video folk to turn down the lights and play the video, then we'll carry on.

"The Chef" and other WSIB campaign video excerpts were played.

That's pretty shocking stuff. It's part of our social marketing campaign, which is trying to change the attitudes and the culture around health and safety in the workplace and to do it at the grass roots level. I did some research; my staff did actually. Minister Duguid has just arrived.

Brad, thanks for coming. He's a terrific guy and I'm delighted to have the opportunity to work with Brad. I know we're going to make some great things happen in this province when it comes to workers' safety. Minister, I was just saying that my staff has done some research; when you take a look at the book and you see the people who have spoken at the Empire Club, it's very impressive.

One hundred years ago, there was a journalist for the Toronto Globe by the name of John Ewan. He spoke about public safety. His concern was that he felt someone needed to spend money, government or private sector, to address the issue of grade separations and the relationship between trains, street cars, vehicles; things of that nature. There had been a recent tragedy in Toronto at a level crossing where some folks had been killed and he believed and said that every accident could be prevented.

That was 100 years ago and John Ewan was an advocate for the kind of health and safety culture that I'm going to talk to you about today. He even said, "There is no body of men willing to spend money for that from which they see no return." And I think his point is still valid today.

Those of you, who are here in business, are in business to make a profit. Those of you, who are here representing labour, understand that the company has to survive and make a profit to create jobs, and to stop job losses in our manufacturing sector. So the success of business and its relationship with labour is clearly tied together and the WSIB understands that.

I want all of you to understand that if you adopt a good health-and-safety program you will see a return on your investment from that program. There are many examples of that here today as a matter of fact. If you think about Bruce Power under the leadership of Duncan Hawthorne—represented by Dwight Willett today at the head table—Bruce Power is a model of a corporation, which has adopted a culture of health and safety to

respect the men and women who work on the shop floor. That comes right from the CEO's office down to the shop floor.

Bombardier and GO Transit are other examples. I was just told GO Transit had four years with no loss-time injuries at that facility. It's terrific stuff.

The Retail Council of Canada recently had an event where I actually got to give some money back. Wal-Mart was the recipient of tens of thousands of dollars in rebates from the WSIB. Where did you ever find an insurance company that actually gave you money back? It's quite a remarkable thing actually and I think Wal-Mart has done a terrific job of getting their employees as well as people in the Retail Council to understand that right from the CEO down to the shop floor it cares about their health and safety. Wal-Mart wants its staff to go home safe at the end of the day and be with their families.

This kind of attitude, this kind of mentality, is something that I've been talking about to corporate folks right across the province. Health and safety should not be a burden. With the kind of shock-ad treatments that we've had to use to get our message across, we've had complaints. We've had people say, "Those are horrible; you shouldn't be using those ads." "You're scaring people." "You're scaring my kids."

I could introduce you to a young man who spoke at the launch of our young worker safety campaign. He was about 19 years old working in a restaurant and he had almost the exact kind of accident that's portrayed in one of the ads; incident rather, I don't use the word "accident." He had the same kind of incident that's portrayed in a particular commercial and received third degree burns to 80 per cent of his body. This is real. This is not Disneyland. This is not contrived. Sadly it happens all too often. It doesn't just happen in the mines, although it does happen there. It doesn't just happen in the steel plants and the car plants although it does happen there as well.

But it happens in areas that we would think are a little less traditional when it comes to health and safety and it can happen to your kids.

So I don't apologize for the ad campaign or the social marketing campaign at all. In fact, I say to people that we have to do this because we have to change, we have to create what we call, what our Chief of Prevention has called, "a national habit of health and safety." It should be a habit if you think about it and we've succeeded in creating that habit in many areas.

What does a seven year old automatically do before he gets on a bike today? He puts on a helmet. The next thing he does is turn to his Mum and Dad and says, "Come on, put on your helmet; we're going for a bike ride." We've succeeded in the areas of health and drinking and driving but not nearly enough, although we have changed generational attitudes in that area. We have got our young people to understand that they should be using designated drivers when they go to events.

My wife and I have three kids—three sons in their 30s—and I'm absolutely confident as is Katie that they would not drink and drive and I can assure you they do enjoy a drink.

When they go on a trip to Buffalo to watch the Sabres and the Leafs with 10 or 12 of their buddies, they have two vans going down the QEW to Buffalo with one person in each vehicle designated to get them home safe. I'm embarrassed to say what people of my generation did in that regard when we were growing up. We've changed that attitude.

We haven't succeeded yet. Mothers Against Drunk Drivers continue to push that issue and so they should. They deserve tremendous credit. Two of our sons have kids of their own and when those kids are grown up and driving, I'm absolutely positive they will not drink and drive.

So we can do it. But I have to tell you that the job Mr. Ewan had 100 years ago to try to sell the culture of safety, to change attitudes, to get people to spend money to make the community safer was a very difficult job and 100 years later it's still a difficult job, but it's a job worth doing.

I want to share a story some of you may have heard. Twenty-five years after Mr. Ewan spoke at this august place, there was a contract given out by the federal government to do some work on the locks in Sault Ste. Marie. I didn't know this story before I became the Chair of the WSIB, but I subsequently heard it and asked the staff to do some research. There was a diver who went underwater to plant the dynamite to blast the rocks before work could be done on the locks. His name was William Wallace Currie. It was a rainy day in September and there was thunder and lightening. He was going underwater and his son was on the surface running the equipment. His son said, "Dad, you shouldn't go underwater today; it's not safe." And William Wallace Currie said, "If I stay up here, I'm going to get wet. If I go down there, I'm going to get wet, but down there I'm going to be paid." So down he went. He wasn't down 10 minutes when lightening struck the equipment on the surface where his son was working; it travelled right down the line. There was a huge explosion and William Wallace Currie died on the way to hospital. He was 47 years old. He left a widow Josephine on survivor benefits for 30 years until she passed away and the youngest of five kids was 15-year-old Annie and Annie got survivor benefits for one year until she was 16; those were the rules in those days. I didn't know that story, but William Wallace Currie was my grandfather, Josephine was my grandma "Jo" who was the matriarch of our family, and 15-year-old Annie is my 87-year-old mother living in Oakville today. I talked to my Mum about it and the impact of it and now being a grandfather, I've thought about it.

What did the accident do to my family? Why didn't we understand? My parents had 10 kids. One died young, so there were nine of us growing up and none of my brothers and sisters nor I connected the dots. The reason I tell the story of William Wallace Currie is to point that out. For some reason we as a society don't register fatalities in the workplace in our mind the same way that we do other horrific incidents that occur.

We lost another soldier just yesterday in Afghanistan; a terrible tragedy. The men and women who fight for Canadian values and beliefs proudly serve this country. And yet invariably when they come home in a coffin, it breaks your heart. What was the headline this morning in the Star or the Globe? I can't remember which paper it was. The quote was, "He loved what he was doing when he died" and every single time that we see a soldier coming back in that way, you always hear the parents say, "They died fighting for Canadian values. They loved what they did and I am so proud of them" and so they should be. And we owe them an undying debt of gratitude as a nation for everything they do.

But ask Paul Kells what it feels like. As many of you would know, Paul lost his son Sean. How do you get that same feeling when you get a knock at the door or that phone call that says your son or your daughter was killed in a workplace incident today? Did he die doing what he loved doing?

And yet you see the work that a guy like Paul Kells has done turning a tragedy into such a wonderful positive example of carrying the message about health and safety to our schools, to our young people right across the country. Frankly Paul, I want you to know that those of us at the WSIB and those of us who live inside the beltway of health and safety, admire you; we thank you for the work that you do.

It's in the memory of your son, but it is so vitally important. You can stand there and say, "I suffered this loss and

I don't want anyone else to go through the same thing." Thank you for what you do. I think Paul Kells deserves our gratitude.

What's changed since 1907 when John Ewan spoke to the Empire Club? Or 1934, when William Wallace Currie died in Sault Ste. Marie? By the way, the other reason that I tell the William Wallace Currie story is to show that it really was not an accident. There really are no accidents. His death was totally preventable. He should have listened to his son and not gone underwater that day. The company should have shut the job down that day. I suspect they would today.

We've been sitting here for over an hour. In the last hour in the province of Ontario, there were 40 incidents registered at the WSIB. Forty. The average cost is \$85,000 per incident—\$3.7 million in direct and indirect costs to the economy of Ontario in the last hour. Forty incidents is a drop in the bucket.

But you know what? It's 40 every hour 24/7. Seven thousand plus injuries every single week. It's astounding. When I became the Chair and they told me that we had 357,000 incidents in 2006, I said, "That can't be right." They're not all lower back strains and they're not all carpal tunnel syndromes, although those are included. Tragically they are incidents that affect people's lives every day.

Every week, 1,000 families in one way or another are impacted by an injury that occurs in the workplace and sadly every week two families are impacted the way that my mother was impacted when her father was killed. Two every week. Every week no matter where I am, whether I'm in the GTA, Northern Ontario or China, my BlackBerry goes off and I'm told that there are two more people who have been killed in the workplace.

The cost to our economy and the province of Ontario, if you want to talk about it from a business perspective, is \$15 billion. There was a report today in the Star that said that the cost of wait times in our health-care system is \$15

billion. Well, I've got to tell you that the cost of injuries and incidents in the workplace is also \$15 billion to the economy of the province of Ontario. It's catastrophic. What I would like to be able to do when I'm finished in the job as the Chair of the WSIB is to be able to convince everybody in business that the WSIB is the best deal in town.

And I'll tell you why. First of all, we protect you from lawsuits. I'm always astounded at the number of people whom I talk to across the province in business who weren't aware of that. If someone who works for you is injured or worse killed in the workplace, they or their family cannot sue you if you're covered by the WSIB. That level of protection is really quite astounding.

That was the principle of the foundation that Justice William Meredith came up with in 1914. The man was ahead of his time. It was an astounding decision—a recommendation adopted right across the country to protect business—and the quid pro quo is that we in turn protect the worker and help the worker.

It's been suggested to me that since my arrival at the WSIB, the playing field has been tilted in favour of the injured worker. I hope that's true. Our number-one mandate without a doubt at the WSIB is to eliminate injuries, to eliminate fatalities and illnesses from the workplace. In 2006, we lost 101 people and another 230 were people whose funeral we paid for, people who had died from an occupational disease that may have been caused over 15 or 20 years ago, but was still caused in the workplace.

That's 330 funerals in 2006. Of the 101 who were killed in 2006, 10 of them were young people. We're doing a whole lot better in 2007; it's 100. I get a little frustrated; I get a little concerned. I look at what we're doing. We're spending millions of dollars in advertising the message that we're carrying right to the business community. Everybody seems to get it when you talk to them, but are we doing enough?

We still see 1,000 every day; 7,000 every week; 100 killed every year, two every week. We just simply have to rise up as a society and a country like Canada and a province like Ontario with the greatest technology in the world. With the most educated work force and tremendous technology at our disposal, it's time we stop this and how do we do that?

Take a look at some of the people who have succeeded. Take a look at the people who are up here at the head table, from Bruce Power and Bombardier and Wal-Mart, and there are many others in this room who have started down and in some cases actually succeeded in arriving at zero. Is zero possible? I've had people say to me, "It's 'Pollyanna' you'll never get there."

I said to one person at a meeting in Ottawa, "If zero is not acceptable or it's not possible, you give me a number. What's okay for you? Is it okay if we only kill 50? Is it okay if we only have 250,000 incidents occurring in the workplace instead of 360,000?"

It's not all doom and gloom; it's not all bad news. We have seen improvements. We are making some progress. The former minister gave us a goal to reduce loss-time injuries by 20 per cent over four years. We're coming to the end of that four years and we're going to be at about 24 per cent. Does the WSIB deserve the credit for that? I say, "No."

The business community and the labour community under the leadership of the WSIB deserve the credit. We're starting to see improvements on our Road to Zero so that we can actually stand up and say as Bombardier said to me today, "We haven't had a loss-time injury in four years." That's the kind of success we need.

You will see an improvement if you talk about the article that was in the Globe the other day by Perrin Beatty, President of the Canadian Chamber of Commerce, where Perrin said the two things business needs to be competitive in the current global marketplace are a reduction in regulatory programs by governments and a reduction in taxes.

I don't argue with that, but how about health and safety? How about putting that on the list with those two things because if you have a productive happy work force, if you care about people's quality of life, about their safety and about their families, I suggest to you that you will see a payback to you and your shareholders in spades ladies and gentlemen. It will come right back directly into your bank account.

It will make you more productive. It will make you more successful and it will encourage other businesses to do business with you because you care about your employees. Most of you wouldn't be here if you didn't care, but I'm here to tell you that you haven't done enough. We haven't done enough; I haven't done enough. My President, Jill Hutcheon, hasn't done enough. Our staff hasn't done enough.

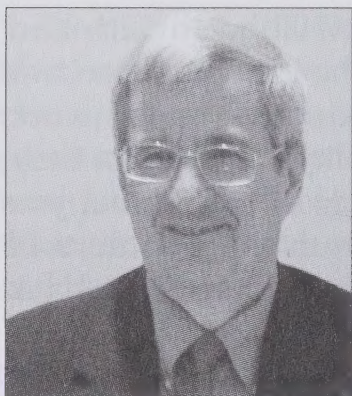
We all have to do more because the numbers are still horrific. Go back to your workplace, go back to your office, go back to your membership and talk about what you can do to improve the health and safety and awareness of your employees to ensure that we in fact eliminate injuries, illnesses and most importantly fatalities in the workplace and stay on top of it. Get reports; find out what's happening.

Talk to the people who work on your shop floor, wherever they are, and make sure they know that you care about them.

The WSIB wants to be your partner. We do not want to be a bureaucratic nightmare to people. We want to be able to solve problems. We want to be able to help you create what I think we can create which is the most productive, the most profitable and the safest place in the world in which to work—the province of Ontario.

Thank you very much.

The appreciation of the meeting was expressed by John C. Koopman, Partner, Spencer Stuart, and Past President, The Empire Club of Canada.



February 7, 2008

David MacKinnon

Former Nova Scotia and Ontario Senior Public Servant
and Critic of Regional Subsidies

CANADA'S DAMAGING REGIONAL SUBSIDIES

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Jocelyn Badovinac, UE, MEd, DH, MMLJ, Honorary Director, The Empire Club of Canada; Linda Banh, Senior Student, Jarvis Collegiate Institute; Grant Kerr, Associate Pastor, St. Paul's United Church, Brampton; Burton Kellock, Partner Emeritus, Toronto Office, Blake Cassels and Graydon LLP; Bill Fearn, Partner, Global Capital Partners, and Former Deputy Minister of Finance, Government of Newfoundland and Labrador; Tim Reid, Director, Business Development, ZED Financial Partners, and Director, The Empire Club of Canada; Charles Cirtwill, Acting President, Atlantic Institute for Market Studies; and Peter Holle, President, Frontier Centre for Public Policy.

Introduction by Catherine Swift

Over the years, we Canadians have defined ourselves in many different ways—not being Americans, having a publicly funded health-care system, being the Great White North—especially today, and so on. Years ago, Peter Gzowski had a contest on his radio show

asking people to complete the phrase “As Canadian as.....” He got the usual entries such as “As Canadian as maple syrup, or the Rockies, etc. But the winning entry was “As Canadian as possible, under the circumstances.”

Something that truly does define us as Canadian is our complex system of regional transfers and equalization payments. The formulae for determining these payments is so complicated it is said only two people in Ottawa understand them, and often they disagree. And as we’ve seen over the past few years in particular, a number of provincial premiers have made a great deal of political hay by claiming there is a so-called fiscal gap and that Ottawa is not giving various provinces the funds they are due. Unfortunately, because these transfers are so complex, politicians can often claim whatever they want and be believed, despite the fact that their claims are often erroneous.

The system of regional transfers has been around for ages, but lately some problems are coming to a head. One of the main concerns is that Ontario, which as a perpetual “have” province, has transferred funds to most other provinces throughout the history of these programs. But Ontario is not in great shape at present. In fact, last year for the first time ever, average per-capita income in Ontario was less than the Canadian average. The looming question is how much longer can Ontarians be expected to send considerable funds to other provinces while it is struggling itself.

Our speaker today, David MacKinnon, will attempt to tackle this interesting but complex issue. David is a native of Prince Edward Island. He attained a BA in Economics from Dalhousie University and an MBA from York University. He was awarded a Centennial Fellowship by the Canadian Imperial Bank of Commerce and York University to study at York, Harvard and Oxford universities and the European Institute of Business Studies. He served as Director, Planning and Economics, and Executive Director, Development Strategy, in the Nova Scotia Department of Development from 1976 to 1981. He later served in several senior capacities in the Ontario Public Service, the Bank of Montreal, and as CEO of the Ontario Hospital Association from 1996 to 2002.

David is a public member of the Council of the Ontario College of Physicians and Surgeons, chairs its Finance Committee and is a member of its Executive, Complaints and Outreach committees. He is on the Board of West Park Healthcare Centre and the Canadian Standards Association and is a Senior Fellow of the Frontier Institute for Public Policy in Winnipeg and the Atlantic Institute for Market Studies in Halifax.

Please join me in welcoming David MacKinnon.

David MacKinnon

Thank you very much Catherine for that kind introduction.

Before I begin I would like to say that the speech I'm going to give I've had much help with and much of it has come from the Frontier Centre for Public Policy, the Atlantic Institute for Market Studies and of course the Ontario Chamber of Commerce which a few years ago took sponsorship of this subject in quite a significant way. I'm very grateful for their help and for the significant research that they've all done on this very difficult subject.

I should warn you that this in many ways is a difficult speech for me to give and in some ways it is going to be a difficult speech for you to hear. I will be criticizing the system, which goes to the heart of our federation and to which many people have emotional and personal attachment. I believe I can address it fairly and from a larger national interest because of my own background, which I think is unusual. I have lived and worked in Western Canada, Eastern Canada and in Ontario and my family has substantial roots in Alberta and Quebec and Saskatchewan. I think I've seen this from the perspective of all parts of Canada.

Today I'm going to advise you that Canada's crazy quilt of regional subsidies is doing very serious harm to this province, as well as to the economic potential of the provinces at which it is aimed, which many of you may find surprising. I believe ultimately the system of regional subsidies has the potential to completely undermine the ability of Canada to compete in the global markets of the 21st century.

Before I get into that, I will briefly review what this system is. The regional subsidy system in Canada is very extensive and includes equalization, targeted programs

and a very significant number of biases built into regular federal programs. There are three components to this.

The principal recipient jurisdictions are Manitoba, Quebec and the Atlantic provinces. The principal paying region, as Catherine has mentioned, is Ontario whose taxpayers each working day contribute tens of millions, somewhere between 70 and 90 million each working day, to support programming elsewhere in Canada. I'd like you to think of that. This working force of perhaps eight million every single day has to generate somewhere between 70 and 90 million to support these programs in other jurisdictions. On a per-capita basis Alberta contributes even more.

So why is this system so damaging?

I'll begin by talking about its impact on Ontario. Most Ontarians believe that government programs are less accessible in recipient jurisdictions than in this province and that we should help others for this reason and that is not so. Accessibility of government programs in recipient jurisdictions, even acknowledging demographic and geographical differences, is better than in Ontario and Alberta whose taxpayers pay so much of the freight. If you'll excuse me, I'm going to use a few numbers to illustrate that point.

In 2005, Ontario had 2.8 hospital beds per 1,000, Alberta 3.3, Manitoba 3.8, and Newfoundland and Labrador 4.3. Newfoundland and Manitoba had 10.7 and 5.6 nurses per 1,000. Alberta had 8 and Ontario 7.1. I'd like you to think of the implications of the fact that the nursing work force in this province is approximately 70 per cent of the size relative to population of the nursing work force in the recipient provinces and way below the national average. For Ontario's physicians and nurses, that figure has huge significance.

Average class size in elementary and secondary schools is 13.4 for Newfoundland, 14.9 for Manitoba, 16 for Ontario and 17 for Alberta.

Ontario has only half the number of judges in relation to population as Newfoundland and has by far the fewest in relation to population of all Canadian provinces.

Total public-sector employment per 1,000 population in Ontario is 81, Alberta 83, Quebec 92, Newfoundland 105 and Manitoba 117. Manitoba's public sector is nearly 50-per-cent larger in relation to its population than Ontario's. Of course Manitoba is a major recipient of equalization.

Numbers don't tell the story in human terms. The old and the very young in Ontario would find greater challenges accessing hospitals and teachers than most Canadians in other provinces. Human cost is reflected in very bad policy choices.

Why is it that Manitoba can subsidize electricity prices, even in the world that Al Gore describes, by \$1.2 billion while it collects \$1.8 billion in equalization? Did anybody in this room sign on for that kind of public policy? Or more to the point do you want to continue to pay for it because you are paying for a significant portion of it now?

The second thing most Ontarians believe about the system is that they are assisting economic growth in recipient regions and they are not.

Very briefly the tidal waves of funding from Alberta and Ontario taxpayers to recipient jurisdictions impairs economic growth. It doesn't help it at all. It impairs it by forcing labour costs to national levels in economies that can't support them, by funding excessive public services, and by forcing unsubsidized enterprises to compete with subsidized enterprises in ways that impair the performance of those that are not receiving subsidies. I should say that the scale of the gold-plated public services is truly breathtaking.

In Nova Scotia there are 32 hospitals and in P.E.I. eight, 40 hospitals supporting a population of 1 million. In the city of Vaughan, just above Toronto, there isn't a single hospital for over 200,000 people.

There are 15 universities in Atlantic Canada and four complete provincial public services for a combined population of two million, significantly less than Toronto.

Another thing that most people feel about the system is that equalization is the principal means by which other parts of Canada are subsidized. In other words, there is no equalization outside equalization, and that also is not true. If one takes equalization entirely out of this, federal spending in Prince Edward Island per capita is about double the level of Ontario and federal spending is approximately 50-per-cent higher in all recipient provinces except Quebec and that's taking equalization entirely out of this equation.

Many Ontarians also believe that equalization reflects the different needs of each province. Unfortunately again it does not. The cost drivers do not factor at all into the equalization system. The program focuses entirely on the revenue side of governments. To put this simply, all the factors that make delivery of programs in Ontario and possibly some other provinces more costly than elsewhere—emigrant support, huge urban areas, unemployment levels, demographics, high labour costs—are not recognized in the calculation of equalization entitlements.

Several observers agree, including the Atlantic Institute for Market Studies, that the per-capita funding needs of provincial programs in Ontario are at least 20-per-cent higher than they are in all the other provinces and the failure to account for that means that the entire analysis that I've just gone through seriously understates the severity of this problem and its impact on the people of Ontario.

Finally, most Ontarians believe that equalization at present levels is specifically required under the Canadian Constitution and is firmly grounded in law. It is not. While equalization is mentioned in the Constitution Act of 1982, legal scholars generally agree that it is too vague to have

legal consequences or to require any particular level of equalization expenditures or other regional subsidies.

I'd now like to turn to how we got into this mess and what Ontario's legislators need to do to get out of it. Causes are to some extent self-inflicted. Ontario's leaders—there are a few exceptions, Mr. McGuinty and Mr. Rae being two—have been operating in two vacuums on this question—a factual vacuum and a leadership vacuum.

The scale of the factual vacuum defies belief for a jurisdiction of this size. Ontario governments over the years have never shown any interest in the impact of this system on the recipients in recipient jurisdictions. These Ontario governments over many years did not identify the harm these subsidies do to others and that the money from Ontario taxpayers was being spent on gold-plated services, public services, that are not only beyond the Canadian standards but well beyond North American standards for those public services. Most Ontario citizens have never heard of the failure to consider the cost issues built into the system and to this day in Ontario there are no public studies of the impact of this system on growth, competitiveness, consumption, savings or investment in Ontario, none at all. So if you are a citizen trying to inform yourself on this you have got a real problem. If you believe that facts are the best place to start in solving any complex problem, then Ontarians have been seriously failed by their provincial governments over decades. The present government in its first term is a refreshing exception.

The leadership vacuum is more subtle. If you listen to Ontario's political leaders in election debates and other similar forums, you will hear them harp back to a misty nostalgic era when Ontario in their view led the federation. Again I hate to be the bearer of bad news, but for most of the 1970s and early 1980s I had the opportunity to watch Ontario delegations at federal-provincial meet-

ings from my vantage points in delegations from the federal government and two other provinces. My colleagues and I did not feel that Ontario was leading at all. We felt that it was simply enabling federal leaders to do whatever they wanted to do at any time. Ontario's leaders quite willingly seemed to agree to the spending of whatever money from Ontario taxpayers that federal leaders thought necessary and they had no idea of the financial consequences of these decisions for Ontario at the time that they made them.

More seriously, the lack of Ontario leadership has led to a sense of entitlement by others that Ontario will find very, very difficult to manage. Other provinces feel so entitled that they make financial demands regardless of economic circumstances in this province and Catherine has referred to how fundamentally they have changed. If Ontario fell into recession today and its output declined, its citizens would still have to come up with nearly half the guaranteed annual increases for equalization in the coming years. This, I would submit, is an extremely dark shadow on Ontario's future should our fortunes continue to change in ways that are unsatisfactory.

Demands from other provinces are also made in wildly inappropriate ways. Political blackmail has more easily been played in the last few years of federal minority governments. Three years ago Premier Williams came to this club and noted that Newfoundland came into Confederation with a government surplus, a surplus, and now faced major deficits with the clear implications that the relationship with Canada was the problem. Conveniently he didn't mention that when Newfoundland entered Confederation it was under the supervision of the British government with disarray in its finances. The only reason it had surpluses was because Canada, then a foreign country, and the United States had spent the war years building large military bases on the island. The omission of these two facts is disingenuous.

We recently had equally outrageous comments from Saskatchewan. That province has been growing much faster than Ontario for a decade, but what did its former premier want and got into a big fight with the federal government to achieve? More equalization. Half of that equalization has come from the hard-pressed citizens of Ontario. The circumstances have changed, but it did not halt the premier of Saskatchewan from making these new financial demands known.

Even more leadership problems are evident at the federal level and the first problem is ignorance. Ontario's MPs seldom if ever express informed concern about the problems I've mentioned even though they have been described by banks, think-tanks, other organizations, and have even attracted the notice of the Organisation for Economic Co-operation and Development (OECD), the largest research organization for the international community.

More seriously, the leadership issue gets into the issue of electoral reform. The chances of correcting the problems I'm mentioning are being reduced by the current efforts of the federal government led by Mr. Van Loan, the government House Leader, to ensure that Ontario's current under-representation in the House of Commons worsens in the years to come. It is odd indeed that an Ontario MP is leading that charge with the hopes that Mr. Van Loan's Simcoe riding constituents are noticing. Last time I checked that riding was in Ontario.

Perhaps on a somewhat lighter note, we need to borrow an idea from the Americans and have the modern equivalent of a tea party in Toronto harbour to argue for the principles of representation by population and no taxation without fair representation. I should say most people in other western countries would find it amazing that we in Ontario have to argue for representation by population and no taxation without fair representation in Canada in 2008.

I should now like to turn to the final part of my speech—the actions Ontario's legislators could take to deal with the issues I've mentioned.

At first I think they need a change in attitude. They need to get real and get tough. In financial terms and in population terms, Ontario is a Sweden and a half. It should behave with similar sophistication. The 40-year policy of standing aside and enabling the federal government to do its thing is both unseemly and pathetic. Every time I think of Ontario government leaders acquiescing in the financial disaster I've outlined and forcing their successors to crawl back to the federal government for funding any time they want to build a subway line I cringe. Getting tough is another thing.

Except for the past eight or nine years, Ontario has for decades been the accommodating lightweight at federal-provincial financial gatherings. This has let other provinces seize the moral high ground on this subject and we need to take it back. There are other specific steps that the Ontario government could take after making that basic change of attitude to get tougher and get more realistic.

The first is that they could put some ideas on the table and work with the Ontario electorate and other Canadians to sell them. These include transferring the GST to the provinces, opposing the cost basis for calculating equalization, and proposing arrangements by which the federal government might assume some provincial debt in return for ending transfer payments and regional subsidies.

Secondly, the Ontario government could undertake a very large public education program on this issue. It could compile the comments that others have made—the Atlantic Institute for Market Research, the OECD, the Frontier Centre, three of the major banks—and they could use them as a basis for an advertising campaign across Ontario. They could also do the same by referring this

entire matter to a major organization outside Canada to get an unbiased point of view.

A further step is to clarify the legal underpinnings of this system. While arguably such clarification should take place in the courts a preliminary step could be for Ontario to ask for a formal opinion from a recognized legal expert and make it public. The question that should be put to this person should be aimed at refuting the idea that the present very high levels of regional subsidies and equalization aren't any way guaranteed under the Constitution. The answer is almost certainly that they are not and understanding that would probably help Ontarians feel more comfortable with the change.

Fourth, Ontario could take an historic U-turn and support Mr. Harper's efforts to constrain the federal role to its core responsibilities, something which would significantly reduce the opportunities to build subsidies into every program of the federal government which is what most of the other provinces seek.

A fifth thing the province needs to do is become very aware of the consequences of short-term deals. In recent weeks the federal government has taken some steps to lessen Ontario's fiscal deficit with the rest of Canada and other steps to increase it. There are few public numbers on what the net change is. Ontario should maintain a public money tab of what those numbers are.

The final specific task that Ontario should consider is forming a very specific alliance with Alberta. Both provinces could develop a common approach to the problems that I have described today. It would be much easier and much more likely to get action than either operating alone.

I'd like to conclude with just a couple of very brief thoughts. Ontario is in significant difficulty today. Toronto is the unemployment capital of Canada. We have lost 64,000 jobs in manufacturing in a year, 6 1/2 per cent of the total. We have been in a long slow decline since the

1960s. Our schools, to judge from recent reports by the Toronto Board of Education, are violence-prone and many are infested with vermin. This is not a jurisdiction that can carry the burden for others who in many respects are better off.

Ontario's leaders have a choice. They can continue to support these dysfunctional regional subsidies that have been disastrous for this province, dangerous for others, and impede Canada's performance. Alternatively, they can recognize that the problem I have summarized is like an iceberg, a much bigger problem than it appears on the surface—an iceberg that could sink many of our provincial and national dreams. If they act together, they can chart a new course for change. They and their federal counterparts can build a country united by common purpose and shared values rather than divided by unseemly efforts to get others to pay for local services and problems. If they take this new path, it is Ontario's leaders who have to make the basic change. They can help all parts of Canada achieve a better future, which is what in the end all these systems and every one of us wants.

Thank you for the opportunity to go through a complex subject briefly today. This is, as I say, a difficult subject, but I think the good news is that we can engineer a fundamental change in this part of our federation. The future of all Canadians will be much brighter and individual Canadians will almost certainly be much better off. Thank you.

The appreciation of the meeting was expressed by Tim Reid, Director, Business Development, ZED Financial Partners, and Director, The Empire Club of Canada.



February 20, 2008

Dr. Mamdouh Shoukri

President and Vice-Chancellor, York University

YORK UNIVERSITY—PREPARING STUDENTS TO REDEFINE THE POSSIBLE

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Sylvia A. Morawetz, Principal, S.A.M. Solutions, and Director, The Empire Club of Canada; Anna Luo, Grade 12 Student, Riverdale Collegiate Institute; Raheel Raza, Interfaith Advocate; William Fisch, B.Comm, LLB, Chairman and CEO, The Regional Municipality of York; Leeann Signorotti, Vice-President, Commercial Markets, Not for Profit and Public Sector, GTR, RBC Royal Bank of Canada; The Hon. Frank Iacobucci, CC, QC, LLD, Counsel, Torys LLP, Former Justice, Supreme Court of Canada; Jo-Ann McArthur, President, Jo-Ann McArthur Strategies Inc., and First Vice-President and President-Elect, The Empire Club of Canada; His Worship Frank Scarpitti, Mayor, Town of Markham; Dr. Ilse Treurnicht, CEO, MaRS; and Tim Rider, Regional Vice-President, Commercial Markets, GTR, RBC Royal Bank of Canada.

Introduction by Catherine Swift

In our hyper-competitive world, the role of our educational institutions is more important than ever. One of Canada's competitive advantages over the years has been the fact that we have a relatively highly educated population. Recently, this advantage has diminished somewhat as a number of emerging economies such as China and India put more emphasis on educating their population to compete in the global marketplace. We are also facing serious labour shortages in Canada that will only worsen in the future with our demographic profile, which means that it will be even more vital to ensure that our limited supply of labour is as highly and appropriately trained as possible.

The growth of our base of knowledge worldwide has also increased astronomically with the advent of the Internet and other communications technologies that permit the dissemination of information and knowledge to be potentially instantaneous. The challenge of sifting through the material we are all bombarded with on a regular basis to determine which information is useful and then knowing how to apply it is daunting to say the least. One important role of our educational institutions is as somewhat of a broker to both disseminate important knowledge and provide guidance as to how it can be applied.

Our speaker today will discuss the role universities can play in this complex process. Dr. Mamdouh Shoukri became York University's seventh President and Vice-Chancellor on July 1, 2007. He was formerly at McMaster University in Hamilton, Ontario, where he most recently served as Vice-President, Research and International Affairs. He was also a professor of Mechanical Engineering. The McMaster Innovation Park exemplifies the success he and the university had in developing their research enterprise. Prior to joining McMaster, Dr. Shoukri worked at the Research Division of Ontario Hydro from 1977 to 1984.

Dr. Shoukri is a member of the Ontario Research and Innovations Council, a council appointed by the Premier of Ontario in July 2006 to advise the government on its innovation strategy to keep the province's economy strong. He is also a member of the Board of Directors of the Ontario Centres of Excellence Inc. He is a fellow of the Canadian Academy of Engineering and the Canadian Society of Mechanical Engineering. His professional memberships also include the Association of Professional Engineers of Ontario, the Canadian Nuclear Society and the American Society of Mechanical Engineers. He is the author and co-author of over 100 papers that have appeared in refereed journals and symposia. His education credentials include a BSc (Hons), Mechanical Engineering, Cairo

University, MEng, McMaster University and PhD, Mechanical Engineering, McMaster University. Please join me in welcoming Dr. Mamdouh Shoukri.

Mamdouh Shoukri

Good afternoon. It's a pleasure to be here. I've been looking forward to this day for some time. As I was preparing my remarks, I did what many people do these days—I turned to Google.

I googled the Empire Club, and I saw the photos of some of the speakers who have spoken to this club over the past century—Alexander Graham Bell, Winston Churchill, Pierre Trudeau, and Bill Gates—people who changed the twentieth century; people whose ideas are shaping the world we live in.

I am honoured to add my name to the list. Not that I think my ideas or words will change the world, but I believe the work happening at York University will. At York, we believe that the university's primary function is to prepare students to be citizens of the world—to Redefine the Possible.

And today, I want to talk to you about how we're doing that. I want to talk about our plans for growth; about our unique, interdisciplinary approach to creating and disseminating knowledge; and more importantly, about our plans to make York a model for a progressive university for the 21st century.

Plans for Growth

As some of you may know, York University will celebrate its 50th anniversary in 2009—50 years of exponential growth. It's a proud legacy, to be sure, but at York, we're focused on where we're going, because we believe our greatest years are ahead of us, not behind.

York occupies a unique place among Canadian universities, being both large and well established and yet, we are young and growing. We have only just begun to make

our mark in Canada and the global community. We are located in the fastest-growing and most diverse region of Canada, a mini-world where ideas with global perspective can be tested and implemented.

The real question for York is how to manage that growth, so that we may become a leading research university. York knows that it needs to have a plan for growth, and the first step in developing a strategic plan is knowing who you are and understanding your environment.

Toronto is exceptionally cosmopolitan, and York reflects and celebrates that diversity. From the beginning, York has been engaged with local communities, and yet we are outward looking and global in our student population, faculty, programming, research and relationships.

York has defined strengths in the Humanities and Social Sciences:

- The Schulich School of Business was ranked top business school in Canada (and fourth in the world) last year by Forbes magazine.
- Osgoode Hall Law School is the largest common law school in Canada and one of the most highly regarded in North America.
- The Faculty of Fine Arts is the first and largest comprehensive fine arts faculty in Canada.

Our science programs, though excellent, have been small relative to our size. Our engineering program is even younger and smaller, having been accredited less than a year ago.

Given York's location, and given our potential impact as Ontario's second-largest university and the third-largest in Canada, it is essential that our future development is focused on becoming a comprehensive, full-service university by building on our 50 years of success.

Universities in the 21st century must have a culture of planning if they are to have any hope of maximizing their potential, and York is actively developing such a culture.

I'm not talking about a blueprint; I'm talking about knowing our destination, even if we can't predict every bump and detour in the road. I believe this is a pragmatic approach, given the uncertainties of political will and government decision making.

Without a plan, you get what I call "marginal growth"—small but steady increases in class sizes and enrollment numbers without direction and, mostly, without proper funding. Planning is what helps us to create and respond to opportunities, to be agile enough to act when action is needed. With a plan in place, we are able to build on our strengths.

The first objective of York's University Academic Plan is to strengthen research, but to do so with the needs of society in mind. This means defining areas for strategic growth—science and engineering, medical and health research—in light of the university's vision. We want to marry the ability of science and technology with the challenges that face communities the world over.

The Interdisciplinary University

I believe York is a leading interdisciplinary university. Our goal is to educate our students to be experts in their field, but to be aware that their field is part of a much wider world.

Think for a moment about some of the challenges humanity faces—HIV/AIDS; many Third World health issues; pollution and the environment; poverty; gender inequality; and political and ethnic conflicts.

The truth is that we have most of the technology and the knowledge to solve many of these problems. What is lacking most of the time is the link between the science and the action. It takes something from the humanities

and social sciences to put that scientific solution into action.

So at York, we're creating and expanding our School of Engineering, and we are taking a non-traditional approach. It means the engineers we train will have business acumen and a social conscience. We want them to understand how their work can help solve problems, how it can help make our region and our country more competitive and more prosperous.

This is also why we're taking a new approach to medical education as we establish a Faculty of Health. We're on a mission to build a leading centre of innovation, excellence and compassion in health and human sciences. Our vision is to educate future global leaders in redefining and advancing health and human science.

We emphasize effective approaches for keeping people and communities healthy; we believe in building sustainable health-care systems. Our classrooms encompass laboratories, sports fields, clinics and community settings, and our faculty members include world-renowned educators, researchers, and policy makers, people dedicated to improving health care, prevention and health promotion.

And we hope to extend and maximize the outcome of these efforts by starting a medical school based on the same foundations. This will allow for synergies, more aggressive and innovative approaches for learning and research. It also recognizes and reflects the needs of society, both locally and globally. Simply put, our plan is responding to the needs of society by building on our strengths in curricular initiatives and in research.

Knowledge Creation and Dissemination

Creating new knowledge is one of the most cherished functions of a university. It is a magnificent challenge—and opportunity—to expand inquiring minds and to

widen the sea of human knowledge through our research and teaching.

In the past, an idea's pedigree was more important than its intrinsic worth. Fortunately, at York we know the opposite is true. Ideas are transmitted through the special connection between minds. This can happen anywhere—in the classroom, in the field, in the city, in solitude, in the multitude. Research ideas come from researchers, graduate and undergraduate students and from their fresh new ways of looking at the world. This is why research cannot be restricted as the preserve of elites.

Canada produces less than 5 per cent of the world's new knowledge. Yet our students need to be exposed to 100 per cent of this knowledge just to stay current. So how do we judge the quality of new research ideas?

Rigorous and open peer review remains our best guarantee of excellence and transparency. Peer review is the surest way of maintaining the highest possible standards, so that the open competition for ideas actually follows the ideas, not their pedigree.

And if advancing knowledge is the great privilege of the university, our greatest responsibility is to mobilize that knowledge, to share it with the community and the world for the benefit of all; to solve the problems we face, to improve competitiveness, to increase prosperity.

Knowledge is of no benefit to anyone if it sits on a shelf. That said, the best mechanism for the effective dissemination of knowledge remains our students. Broadly educated, yet knowledgeable in their fields of specialization, graduates continue to transfer their knowledge to society.

However, I believe we have an obligation to create new outlets to disseminate knowledge rapidly and effectively to a broader audience. Today's universities are expected—and challenged—by governments and by society to link their knowledge creation to societal needs, and to become more entrepreneurial in dealing with industry.

A university's plan must include knowledge dissemination and direct participation in the social and economic development of the local community and society at large. At York, we take this obligation seriously. We have a Knowledge Mobilization Unit to help turn research into action. I believe that a research university, together with the community, private sector and government, can play a key role in the development and sustainability of innovation clusters and major arts and cultural centres.

Building on its strength, York University will continue to work closely with the local community and government to provide strong support for local social and economic development. As an example, working with fast-growing local industry and all levels of government, York is leading the development of an innovation cluster on medical devices.

While York has grown into one of Canada's largest universities, it is not yet one of Canada's top research-intensive universities. To get there, we must maintain our prominence in areas of research strength; invest strategically and aggressively into niche areas; and diversify our research base and build our reputation through external partnerships. We also need to invest in research infrastructure and services to create highly competitive recruitment packages. This is key to attracting world-class scholars in strategic areas to drive forward York's research performance.

Internationalization

Universities are increasingly competing for both students and faculty in a global marketplace. York has long understood the importance of reaching out to the world, and our efforts are paying off. York is emerging as a leader in internationalization.

A cornerstone of our University Academic Plan is to help students and faculty participate fully in an increasingly interdependent global society. That's why we're

encouraging the internationalization of academic programs, along with the important institutional linkages and student and faculty exchanges.

We offer a broad, international curriculum that brings world perspectives into the classroom; we have excellent student mobility programs, funded international internships; and award-winning programs, such as the Emerging Global Leaders Program—an opportunity for students to increase their global knowledge and inter-cultural skills.

Internationalization provides enormous benefits to both the institution and to students.

For the university, international initiatives provide links to local and international communities, and they open up opportunities for partnerships with outstanding institutions in other countries. The Schulich School of Business, for example, has satellites in Beijing, Mumbai and Seoul.

For students, international opportunities enrich their educational experience, exposing them to languages and cultures other than their own, providing new perspectives, showing them firsthand how the world is changing. All of this gives students a competitive edge in pursuing future employment opportunities.

As our world becomes more globalized, our graduates are more likely to find themselves engaged in work that involves other countries and other cultures. Similarly, our faculty seeks the best collaborators for their work, no matter where in the world they may be located.

Knowledge is communicated globally and often instantaneously, without regard for national borders. Of course, focusing on internationalization doesn't mean York is moving away from the local communities we serve. Quite the contrary. We will continue to be guided by our distinctive values and we will continue to build and nurture relationships with our local communities. But the truth is that we cannot compete and win on the world stage if we don't reach out to the world. And we cannot fulfil our core

mission to serve society—both our local communities and the global community—without internationalization.

Conclusion

I began by telling you about York's vision for the next 50 years, about our aspiration to become a comprehensive university serving the needs of society.

Let me conclude by saying this dream of ours, this vision, will be possible only if we plan for it. It is our responsibility to make the plans, to ask the questions, to engage the community, to plan for future growth so that we can steer our university in the direction we want to go.

We can't allow growth to simply happen to us; we need to plan for it. We need to plan in order to create and respond to opportunities, to stay on course despite the changing political climate and decisions. We need to work hard to find new and better ways of creating new knowledge and mobilizing that knowledge for the benefit of society. And we need to reach out to the world so that we can better serve our communities, both local and global.

Thank you.

The appreciation of the meeting was expressed by Jo-Ann McArthur, President, Jo-Ann McArthur Strategies Inc., and First Vice-President and President-Elect, The Empire Club of Canada.



Dr. Mamdouh Shoukri, President and Vice Chancellor, York University, Raheel Raza, Interfaith Advocate, Public Speaker and Author, Lillian Seymour, member of The Empire Club of Canada, and Harry T. Seymour, Past President, The Empire Club of Canada.



February 27, 2008

A joint meeting of The
Empire club of Canada and
The Canadian Club of
Toronto

The Hon. Jim Flaherty

Minister of Finance, Government of Canada

BUDGET 2008

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Rev. Canon Kimberley Beard, Senior Pastor, St. Paul On-the-Hill Anglican Church, and Director, The Empire Club of Canada; Gregory Cohen, Grade 12 Student, North Toronto Collegiate Institute; Jaime Watt, Chair, Navigator Ltd., and Director, The Canadian Club of Toronto; Tony Gagliano, Executive Chairman and CEO, St. Joseph Communications; Arturo S. Elias, President and Managing Director, GM of Canada Limited; Allan P. O'Dette, President, The Canadian Club of Toronto, and Director, External Relations and Public Affairs, GlaxoSmithKline Inc.; Lisa A. Baiton, Vice-President, Government Relations, Environics Communications Inc., and Vice-President, The Empire Club of Canada; The Honourable Tom Hockin, Chair, Expert Panel on Securities Regulation; Tim Hockey, Chair, Canadian Bankers Association, Group Head Personal Banking and Co-Chair, TD Canada Trust; and George Cope, President and Chief Operating Officer, Bell Canada.

Introduction by Catherine Swift

I would like to thank the Honourable James Flaherty for agreeing to be with us so early in the morning after what must have been a very long day yesterday. I was in Ottawa yesterday as well, and I'm pretty

tired after just commenting on the budget. I can only imagine how it must be to have delivered the budget, dealt with all of the post-budget interviews, and then come here to share your perspectives with us. We really do appreciate it.

Jim Flaherty was first elected to the House of Commons in 2006. He served as a Member of Ontario's provincial legislature for the constituency of Whitby-Ajax from 1995 to 2005. During this period, he held a number of posts. Under Premier Eves, he served as the Minister of Enterprise, Opportunity and Innovation. Under Premier Harris, he was the Deputy Premier, Minister of Finance, Attorney General, Minister Responsible for Native Affairs, Minister of Labour and Solicitor General and Minister of Correctional Services.

He graduated from Princeton University and has a law degree from Osgoode Hall Law School. He was called to the bar in 1975 and practised law for more than 20 years before entering politics. He is also the Past President of the Head Injury Association of the Durham Region.

Ladies and gentlemen, please join me in welcoming the Honourable James Flaherty.

Jim Flaherty

Well, good morning. I was worried when I saw Catherine this morning with the chain of office. I thought it was the mayor of Toronto for a moment. But I've got over that shock. I'm okay now.

I did the budget yesterday in Ottawa and sensed it was a momentous occasion in Canada. Then I called home last night and spoke to one of my sons and thought he'd ask me about the budget but he said, "You know, Dad, Whitby's favourite hockey player, Adam Foote, has been traded to Colorado." That's what's important. That's what's happened today. And the Leafs didn't do much and that's important too. But the Leafs did beat the Senators the other night, 5-0, which caused some sadness in Ottawa which is, I hope, cause for rejoicing here in Toronto. And the Habs traded a goalie I understand. All of these momentous things happened in Canada yesterday, but I'll bore you now with a bit of talk about our budget in Canada, where we are and where we're going.

It's good to see Premier Harris here. It's good to see councillors from the City of Toronto here. We made a very important step, a permanent step in Canada yesterday, when we announced that the sharing of the federal gas tax will be permanent. This is a major step forward. I'm departing from what I'm supposed to talk about here but it's a major step forward. The mayor of Montreal, Mr. Tremblay, in the pre-budget consultations talked to me specifically about this, saying how important it was to the municipalities to have permanence so they could plan ahead. It's just like business. It's the ability to plan ahead with certainty in terms of funding for municipal infrastructure in Canada. We provided that certainty yesterday to our municipalities large and small across Canada.

It is a pleasure to be here this morning. It is our third budget as the Government of Canada. Somebody asked me yesterday, "Are you surprised it's the third budget?" Yes, I am. If somebody had asked me two years ago whether I would do three budgets and two economic statements, I would have bet against it. I would have thought it was unlikely. They asked me this morning, "Are you surprised that the Official Opposition party is going to support the budget?" Yes, I am, I suppose because they brought me a shopping list and said they wanted me to spend billions of dollars on A, B, C, D, E and F. We're not doing it, but they're supporting the budget anyway. I thank them for their support. It's important that they think this through and that they support the important steps that we're taking in terms of our economic plan for Canada. And it is a plan.

We took office in 2006 and there was not an economic plan for Canada. We developed an economic plan for Canada in 2006. It's called Advantage Canada. For those of you who wonder where we're going, it's on the Web site. It sets out exactly what we intend to accomplish in office as the Government of Canada: an entrepreneurial advantage;

a fiscal advantage; a tax advantage; an infrastructure advantage; and a knowledge advantage for Canada.

The steps we took yesterday were additional steps in implementing that plan for our country. It will result in our country having a higher quality of life and a higher standard of living.

So then what did we do yesterday? The most important thing we achieved yesterday was continuity, the cumulative effect. We saw the slowdown coming in the United States. That is important. There is also global credit insecurity. We have our own challenges in Canada with asset-backed commercial paper. As you know, Purdy Crawford is leading the group in Montreal that's been working on that issue with some degree of success which is important. But we also see the slowdown in the U.S., the housing sector in particular, which is in recession in the United States. We saw it early on. We saw it last year. That's why we acted last year to create a stimulus for the Canadian economy.

What is that stimulus? The stimulus is 1.4 per cent of our GDP. It's huge. It's about \$21 billion. When does it take effect? It takes effect now. It started January 1. On October 30 in the economic statement we made retroactive many of our tax reductions and we made historic business tax reductions for Canada on October 30, which began on January 1, 2008. We're going to reduce the federal business taxes in Canada to 15 per cent by 2012. We encourage the provinces to get to 10 per cent by 2012. I'm thrilled that Carole Taylor, the Minister of Finance in the province of British Columbia, and Premier Campbell have moved in that direction last week. The province of Alberta is already there. I encourage, I plead the government of Ontario to move in that direction.

The government of Ontario today has the highest taxes on new business investment in the country. This is at the same time the current premier of Ontario says that he's worried about business. Well, if you're worried about

business, business doesn't need bandaids. Business needs long-term structural change like they're doing in British Columbia, like they're doing in Alberta. My goodness, the taxes on new business investment in Quebec are 50-per-cent lower today than they are in the province of Ontario. This has to be fixed. I'm going to continue to plead with the province so that when the budget is announced this spring it provides some relief to businesses in the province of Ontario. This will happen if there is concern about this province, my home province, the province in which I was treasurer for a time, thanks to Premier Harris. And it was a time, going back to then, 2001–2002, of some limited economic growth, about 1.5 per cent real growth in GDP in 2001–2002 in the province of Ontario. When I heard yesterday some of the critics saying we're running the surplus close to the line, I've seen this movie before. We've done this before. We have the ability in government—some might not believe this—but we do have the ability in government to control spending. We do have the ability to reduce taxes. We've done both in the Government of Canada under the leadership of Prime Minister Harper over the course of the past two years. And this is important in terms of preparation.

As I say, we knew that there would be an economic slowdown in the United States eventually. It is now happening, so we took the steps, the important steps in terms of reducing taxes, paying down debt, to make sure that we in Canada were prepared for this economic slowdown.

When I was in Tokyo two weeks ago at the G-7 finance ministers' meeting and when I was in Davos at the World Economic Summit and when I meet with my colleagues internationally in the emerging economies, I'm proud as a Canadian to be able to say that we have the strongest economic fundamentals in the G-7. We're the only country in the G-7 that is running a surplus, that is reducing taxes at the same time as paying down public debt. When I

describe this to my colleagues, the other finance ministers in the G-7, I can tell you they look at Canada with tremendous respect because we have our economic fundamentals in order. All of that is important as we go through a time of some economic slowness.

I can assure you that we will stay in a balanced budget position in Canada. We'll continue to run a surplus, albeit a smaller surplus for the time being.

Then there are those that say we should use the surplus for something else. The opposition critics came to me when we were preparing the budget, and I met with them, as one is supposed to do. The NDP, the Liberals and the Bloc all came with shopping lists. This is the old-fashioned way. How much more money can we spend on A, B, C, D, E, big long lists? How much?

I said to them, "We're close to the line the next couple of years. Have you heard about the world economy, the global economy? Have you heard about the housing recession in the United States? Do you recognize that that has certain effects upon our economy and our economic growth in Canada?"

Nevertheless, there were presentations of large spending demands. Had I agreed to any of the demands of any of the opposition parties, our budget would be in deficit this year and next year in Canada. So we didn't agree to any of them but I thanked them despite that for their support for our efforts in the budget that I announced yesterday.

Why are we reducing debt? It's a good, legitimate question. I'm happy to see the students here from Riverdale. Let me talk for a moment about reducing debt and why it's important for our country. It's not important in today's terms or tomorrow morning's terms. It's important in the long run. If we look at Canada and we look at Canada's future, Sir John A. Macdonald used to say, "Look a little ahead, my friends." If we look a little bit ahead, we see how morally deficient it is for us to live high on the hog

now and pass our debts on to the next generation. That's you. Why should you pay, students from Riverdale, for benefits that we have today because governments are living above their means?

We're not doing that anymore. The International Monetary Fund and the Organisation for Economic Co-operation and Development and so on write reports that call it intergenerational equity. Well, it is intergenerational equity but it's another way of saying it's not fair to pass on today's debts to the next generation. So we're moving against that.

We've paid down so far in two years about \$37 billion of debt. That's about \$1,500—a little bit more than that—\$1,500 for every man, woman and child in Canada. Every time we reduce the public debt, we use what we call the Tax Back Guarantee. Every time we reduce public debt we reduce taxes on individuals, families in Canada. That amounts to a significant amount, about \$2 billion now, given what we've done so far. So that's reducing debt, reducing taxes.

Yesterday we did something that I'm very proud of actually and that is we introduced the Tax-Free Savings Account. I know it's going to take a while for the importance of this initiative to strike people, but in 1957 the government of the day introduced something called the RRSP, which we all take for granted now. There has not been a significant savings initiative tax-wise in Canada since 1957.

So we did this yesterday. It's very significant. It's also not inexpensive. It starts off being inexpensive but as savings accumulate tax-free in tax-free savings accounts in Canada it becomes quite expensive over time—20 years out it becomes something like \$3 billion a year.

Why are we doing it? We're doing it to encourage savings in Canada. It's sound, conservative fiscal policy. The United States and the United Kingdom have these types of accounts available but we didn't in Canada. Over time

it will be very significant not only for young people accumulating tax-free dividends, accumulating tax-free capital gains, accumulating tax-free interest. Warren Buffett would love this. It's the miracle of compound interest, tax-free in Canada. This is going to become a very popular measure for all Canadians. We estimate that within the next 10 to 20 years, 90 per cent of savings by Canadians will be tax-free in Canada. This is a tremendous impetus toward saving.

In terms of other tax measures, yesterday we made an important decision and announced that with respect to the environment, \$240 million is going to be paid in 2007–2008 in order to move forward with carbon sequestration, a huge capital project, which happens to be in Saskatchewan.

There are concerns about the auto sector and the forestry sector. The U.S. recession in the housing market harms those two sectors of our economy dramatically. The Prime Minister in January announced the \$1 billion fund, the Community Development Trust, to assist communities, assist workers.

We extended yesterday for three more years the targeted initiative with respect to older workers. This is to help older workers between the ages of 55 and 64. Those ages worry me, actually. I won't retire yet. This initiative helps older workers adjust between the time that they are required to retire and the time they receive benefits from our older age security system. We extended that by \$90 million over the course of the next three years.

In the auto sector—this is a matter of some concern—we reduced taxes in October on business generally. The effect on the auto sector is about \$1 billion over the next five years. That's \$1 billion.

In addition, yesterday we announced \$250 million for the Auto Innovation Fund. This is not particularly new. Several years ago in the province of Ontario when it had Conservative governments and I was the Minister of

Economic Development and Allan Rock was the federal Minister of Industry, we did the same thing essentially in order to encourage innovation in the auto sector because you know and I know that in Canadian manufacturing if we're going to succeed, we're going to succeed because we are more competitive. And we're only going to be more competitive if we're more productive. And we're only going to be more productive if we're more technologically sophisticated. So we have to be more innovative. It's as fundamental as that.

That's why yesterday we created that fund of \$250 million over the next five years to assist the manufacturing sector, in addition to \$400 million for the new access road at Windsor-Detroit, and in addition to \$34 million for research into automotive technological issues in Canadian universities. So the total stimulus to the auto sector in Canada is more than \$1.5 billion from the Government of Canada. This is important. It's an important industry not only for the assemblers but also the parts manufacturers in Canada.

In the forestry sector, this is a time of restructuring. This is a sector that affects not only Ontario but British Columbia, Quebec and parts of New Brunswick, certainly other parts of Canada. We are helping, as I say, through the Community Development Trust. The industry will survive. The industry will become a strong Canadian industry again. But in the meantime we're offering support through research and innovation and development so that it will become a more competitive, a more productive, a more innovative industry in Canada.

Now moving back for a moment and looking at the big picture, we have a strong economy. Our fundamentals are strong. We have the lowest unemployment rate in 33 years in Canada. We also have the highest rate of participation in the Canadian work force ever. We also have the highest rate of labour mobility ever in Canada— people moving about our country seeking employment and gain-

ing employment. We've had some job losses in some sectors of the economy, particularly manufacturing. But what we've seen is that those persons who have had to adjust have adjusted. They're getting jobs, good jobs, particularly in Ontario in the expanding financial-services sector where there are high paying jobs, good jobs. That's why the unemployment rate now is at its lowest level in 33 years.

As I say, our economic fundamentals are solid. Inflation is low. Interest rates are low. Because of our strong economic fundamentals in terms of monetary policy, the Bank of Canada has room to exercise its monetary jurisdiction with respect to interest rates. As you know, in the last setting of interest rates by the Bank of Canada, Governor Dodge indicated that it was likely there'd be some movement with respect to interest rates, further movement by the Bank of Canada in the future and the new governor, Governor Carney, I'm sure, will use his discretion as he moves forward with respect to monetary policy for Canada.

Having said all of that, and having ignored what was written for me, I do want to say in conclusion—and you'll welcome the “in conclusion.” I will conclude shortly.

We live in a great country. Our economic fundamentals are strong. We have great universities. I see some of the university presidents here today, some of the community college leaders. We have to move forward with a knowledge economy. The strength of Canada in the future, the economic strength, is not going to be to compete in low-level, low-paying jobs with emerging economies. It's going to be to build on our strengths, to build on our people, on the best and the brightest through our universities, through our colleges.

We moved forward again yesterday with that knowledge advantage. We have to recognize that the future of our country is in its people. We have to build the infrastructure we need in this country which is why we have

the largest infrastructure program federally in the history of Canada since the Second World War—more than \$33 billion. It's why we created an Office of Public-Private Partnerships so that we can lever that to more than \$100 billion in Canada. It's why we've reduced taxes dramatically in our country. It's why fiscally we're being conservative and cautious in our predictions and in our prognostications so that we make sure that our country has balanced budgets. It's why we're encouraging entrepreneurship in Canada by reducing the tax burden, by reducing the paper burden, by reducing the regulatory burden on small and medium-sized businesses in Canada.

It's all part of the plan. We are fortunate in this country that our economic fundamentals are solid. We are fortunate that our country is united. My friends, my fellow Canadians, we have a brilliant future together.

Thank you.

The appreciation of the meeting was expressed by Allan P. O'Dette, President, The Canadian Club of Toronto, and Director, External Relations and Public Affairs, GlaxoSmithKline Inc.



Catherine S. Swift, President and CEO, Canadian Federation of Independent Business, and President, The Empire Club of Canada, and The Hon. Jim Flaherty, Minister of Finance, Government of Canada.



February 28, 2008

Hari Panday

President and CEO, ICICI Bank Canada

BUSINESS OPPORTUNITIES IN INDIA

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Verity Craig, Divisional Director, Hays Executive, and Director, The Empire Club of Canada; Charmie Atibula, Grade 12 Student, Parkdale Collegiate Institute; Reverend Ajit John, Priest in Charge, St. Matthew's Riverdale Anglican Church, and Counsel, Law Society of Upper Canada; John Stackhouse, Editor, Report on Business, The Globe and Mail; Robert G. Long, Director, ICICI Bank Canada; Satish C. Mehta, Consul General, Consulate General of India; Don McCutchan, Partner and International Policy Advisor, Gowling Lafleur Henderson LLP, and Vice-President, The Empire Club of Canada; The Hon. Senator David P. Smith, PC, QC, Director, ICICI Bank Canada; Hon. Sergio Marchi, Senior Business Advisor, Lang Michener LLP; and Sean Weir, National Managing Partner, Borden Ladner Gervais LLP.

Introduction by Catherine Swift

India and its rapid economic development in recent years is very often a topic in the news these days. We often see India and China mentioned in the same breath, and although both Asian countries are developing very rapidly and do have some things in common, there are also several key differences that will become more

relevant in future. One is that the economic growth in India, while very rapid, has been going on a lot longer than in China. It has been quite some time now that India began focusing on educating its youth and preparing them to compete in a globalizing world. So India's development, while remarkable, has not been quite as much of an "overnight sensation" as has China's.

Another key difference is the demographic profile. In China, demographers have noted that China's "one child" policy will soon really begin to hit home, and that future labour shortages may actually slow the country's development. India's profile is exactly the opposite. In a world where most countries, and certainly the western developed countries, are facing labour shortages that will only worsen in the coming years, India has a growing army of young people which is likely to make it even more of an economic success story in the years ahead.

Our speaker today will discuss what is happening in India of late and how Canadians can further benefit from its growth and success. Hari Panday is the President and CEO of ICICI Bank Canada. His career spans 26 years to date, including forming a green-field Schedule II chartered bank in Canada, corporate and commercial banking, international trade, real estate finance debt restructuring, and credit and computer audit functions. He was the founding President of ICICI Bank Canada, which commenced its operations in December 2003. The bank has evolved as a full-service direct financial-services organization with eight branches and over \$3 billion in assets. He has also held senior positions at HSBC Canada and the Bank of Montreal. Prior to his banking career, he worked with Price Waterhouse & Co.

His academic background includes a CGA designation and a BA in Economics and Political Science. He is a member of the CGA Association of Ontario, the Board of Trustees of the Royal Ontario Museum, the Board of Roy Thompson Hall and Massey Hall and a member of the Mayor's Economic Competitiveness Advisory Committee, among other positions.

Please join me in welcoming Hari Panday.

Hari Panday

Ms. Catherine Swift, President, the Empire Club, Rev. John, the Hon. Sen. Smith, the Hon. Sergio Marchi, Mr. Satish Mehta, Consul General of India, honoured head table guests, federal, provincial and civic leaders in the audience, ladies and gentlemen:

Let me say, it is a great honour and privilege for me to address the members of the Empire Club, meet many successful Canadian business and political leaders and share this platform with an extraordinary list of leaders from around the world. I would like to acknowledge our head table sponsor Mr. Sean Weir and his firm Borden Ladner Gervais.

I will begin by saying that we are proud to have chosen Toronto and the province of Ontario to commence our business in Canada. Toronto is a city that is diverse, forward-looking, committed to be the best place to do business, raise a family and be at the top spot for arts and culture. All these factors have been captured by Mayor David Miller's recent report "Agenda for Prosperity," culminating from the work done by many CEOs and I had the privilege to serve on his advisory council. I would like to acknowledge the presence of Councillor Kyle Rae, Randy McLean, Manager, Economic Policy, City of Toronto, Dave Purewal, Senior Policy Advisor, and Mandy Maghera, representing Minister Harinder Takhar, Minister of Small Business and Entrepreneurship.

Since the founding of ICICI Bank Canada in 2003, our journey in Canada has been simply spectacular, mostly due to the support of our clients spanning coast to coast and a great deal of effort put in by my colleagues in Canada and India. In four years ICICI Bank Canada has become the most recognizable brand name today among the Indian companies operating in Canada. Our message to Canadian businesses is that if you think of Canada-India linkages think of ICICI Bank. India is our backyard and for the Canadian consumers if you think of "best-in-class" rates and services think of ICICI Bank.

We are the alternative bank you have been looking for in the financial-services industry. As a full-service direct bank we have reached an asset base of \$3.3 billion, a milestone never achieved before by a full-service foreign bank

in Canada within four years of starting its operations in Canada, which is a very mature market.

We have made a good effort in redefining full-service banking in Canada. We have accomplished that while building excellent relationships with the best Canadian financial institutions and the regulators and advisors in Canada, many of whom are present here today.

As a Canadian chartered bank with expert knowledge about India and the Indian environment, our inherent mission is to promote strong trade and commerce ties between Canada and India. It is now a global reality that robust and fair international trade leads to prosperity and economic well-being. I am passionate about Canada's economic prosperity. It dovetails into another reality today when there are many nations emerging as centres of economic power. Many nations like India have turned the tide by becoming the "new West" on the other side of the globe.

It is very important to recognize that the present India story began 15 years ago in 1992 with the implementation of across-the-board economic reforms. During this period the impact of those reforms has progressed to an advanced stage that many India-watchers still refuse to acknowledge. Any foreign company looking to do business in India today should not think of India as a barren frontier. Indian companies do not think of themselves as new players on the world stage. In fact, foreign companies should come to grips with the reality that India and Indian companies are on a fast track.

To understand India with a certain level of confidence and reliability, please focus on its people, the mercantile environment, the DNA of the collective population, its leaders and their thought process, India's friendly relations with its trading partners and multi-lateral relationships with the ASEAN countries, the European Union and the United Nations. The simplest way to explain India is that it is not merely a trading nation, but

rather a nation of traders. Its business and political leaders today have an immense hunger to be a serious player on the world scene by embracing the best business practices, corporate governance principles and respect for rule of law with the underpinning of mutual success.

India has a healthy domestic market and an export-oriented economy that acts as a feeder to the West, African sub-continent and the East. Its industrial growth has caught up with the growth of the services industry. I think the world has heard enough of the 8–9 per cent growth in GDP and even more of India's comparison with China. All of these stories make good headlines but distract from the real issue. In India's case, it is competing with itself.

For a Canadian company it is important to examine the opportunities in the domestic scene and perhaps in the United States and then look at how your competitors in India are staring at your market share faster than you had thought. Many companies I know are still trying to pursue their international strategy in the same manner they formulated it in the last decade. They must not only change their strategies applicable to international business but also the domestic market.

An Indian company today invests in production facilities to handle global markets, so achieving scale at lowest cost and best quality is the combination you have to compete on. You would have to do the same. If your objective is to cater to the Indian consumer, then think of scale and realize that your understanding of India has to be refined on a regional and individual city basis. It is not a homogeneous country. It has 20-plus cities with a population of three million or more, with five metros reporting a day-time population of over 15 million.

In our mind at a macro level, there is a combination of six key economic drivers at work behind this phenomenal growth, what we call the six pillars:

- Favourable demographics;
- The knowledge capital;

- An emerging service sector;
- Pipeline for investments;
- Globalization of Indian firms; and
- Rising disposable income.

This combination is driving both capital investments from domestic and international investors and this investment and consumer cycle is mutually re-enforcing. Let us see what the consumption drivers are.

First, it is the make up of today's approximately 50 million middle-income and three million high-income families. In the top-24 cities the migration to the high-income group, that is the group making over \$12,500 per annum, is rising at a rate of 40 per cent per annum. That means by 2010, only two years from now, we estimate 10 million families to be in the high-income category and 98 million families to be in the middle-income group.

Next, with a current per-capita income of \$1,000, Indian masses are experiencing an increased affordability of goods and services and aspiring for a better lifestyle. As this moves from \$1,000 to \$1,500 per capita, there will be a demand for a better living environment moving towards the next horizon of acceleration in the consumption cycle. That puts US\$500 per person incrementally in the economic system or \$45 billion per year compounded annually. Just imagine the velocity of this money. Simultaneously, the personal consumption side is driving the housing industry, transportation and personal demand for personal credit.

In my mind the most crucial aspect requiring attention and investment drivers in the coming months and years in a nutshell is infrastructure, infrastructure, and infrastructure.

Industrial capacity utilization is reaching optimal levels in pretty much every major industry: auto, cement, food and beverage, shipping steel and textiles. Good news is that expansion since 1992 has been driven by an entrepreneurial class and not the state, showing the journey thus

far to be profitable and lending to the strength of their balance sheets.

Our conservative estimates indicate that in the next four years India needs to invest \$500 billion in its infrastructure and Indian companies will generate approximately \$150 billion in investments from their internal cash flows. That brings me to discuss the opportunities for Canadian enterprises.

Opportunities for Canadians

In order to do that it is best to focus on our industries where Canada is strong. I feel these industries include:

- Financial services,
- Legal services,
- Knowledge-based sectors: IT and IT-enabled services,
- Research, analytics and design,
- Organized retail,
- Telecom,
- Education,
- Auto components,
- Tourism and hospitality, hotels, wines,
- Mining and minerals,
- Oil and gas,
- Medical services.

In the interest of time, I will touch upon only some of them, so let's begin with the services sector and financial services in particular.

A recent global study by McKenzie confirms what we on Bay Street are familiar with: globalization of financial markets is strongly at work, cross-border investments are growing and emerging markets are at the centre of future cross-border capital flows. Global capital flows have grown faster than the value of world trade, world GDP or the world's financial assets. China and the Gulf countries have become significant foreign investors around the world.

India itself has an estimated \$250 billion-plus in foreign investments. Concurrently, to support its growth, India's appetite for foreign investment is very high. Among the emerging markets it is the seventh-largest destination for capital inflows, just about the same level as Israel, Hungary, Poland and South Africa—all countries much smaller in size by most measures.

Financial deepening has occurred across the world and in India. It has sophisticated financial markets that have proven their capacity to weather the storm back in 1997 and most recently with the sub-prime crisis rocking North America and Europe. The services sector in India now represents 60 per cent of the GDP and is expected to grow at 10 per cent per annum, including business process outsourcing.

Some of you must be familiar with the two recent events showing the evidence of confidence in the future of Indian markets and economy. Firstly, the success of the largest-ever initial public offering (IPO)—Reliance Power—which by the end of the first day was subscribed 10.6 times, receiving applications totalling Rs. 1 trillion. There was a stampede; funds were raised for 13 power projects yet to be commissioned but that will generate 28,000 MW power. Next, the most talked about car, Tata's "Nano." Auto executives in the U.S., Europe and Japan are busy raising doubts about its emission and safety standards, yet wondering how they will position against the entry of a new competitor like Tata "Nano."

Equity markets are robust and Canadian banks, insurance companies and pension funds should prepare for the next phase of financial-sector reforms that is expected to be considered by the central bank by 2009. In the banking world, both existing and first-time banking customers will look for savings, borrowing, investment and assurance products. The consuming class is expected to reach \$600 million by 2015.

Here are some specific segments:

- Consumer finance—low penetration at 13 per cent GDP as compared with near-90 per cent for North America;
- Participation in industrial and infrastructure investment—pipeline at \$500 billion, where we are a significant player and would very much like Canadian institutions to participate with us;
- Mergers and acquisitions (M&A) by Indian corporates. Last year our bank was involved in 88 per cent of outbound Indian M&A financing deals; we are ranked as number two in offshore corporate syndicated loans. In 2007, Indian companies did \$51 billion in M&A deals, including Corus Steel by Tata that accounted for \$12 billion. Bajaj Auto now has a 21-per-cent stake in KTM Power Sports AG, Europe's second-largest sport motorcycle manufacturer.
- Debt management and collection. Euler Hermes and Allianz has just set up an entity to handle collections business;
- Financial Planning;
- Corporate Banking—a good way for Canadian banks to expand this asset class and propel their Net Interest Income;
- Project Financing;
- Private Equity—\$19 billion in deals done in 2007; in three years it is expected to reach \$40 billion;
- Asset Management—North American focus;
- Rural Banking. Canadian banks have expertise in providing farmer financing, agri-businesses and commodity-based financing. This market is growing at a rate of 50 per cent per annum.

Legal Services

There are many law firms in attendance today so for their benefit, foreign law firms continue to be in a holding pattern, but whenever the commercial legal services mar-

ket is thrown open, the U.S. and British firms are well prepared to hit the ground running.

These firms have been hiring Indian lawyers and law graduates and forging ties with Indian law firms. See how the Indian lawmakers have allowed the foreign law firms to participate without a formal entry.

Foreign law firms already have an enviable list of Indian companies. Clifford Chance and Baker & McKenzie reportedly have over 200 lawyers each, dedicated to the India-desks. These law firms and others such as White & Case from New York are picking up from Indian law schools the best graduates who can compete with any from the U.K. These are the resources advising Indian and foreign clients on Indian law. Domestic firms remain at a disadvantage because they are not able to advertise or even have a Web site.

Organized Retail

- The best Canadian story is Bata with distribution across India.
- The major entrants include domestic giants like Tata and Reliance.
- There are opportunities in third-party logistics service on a pan-India basis, including storage chains and warehouses.

You should know that the challenge you face in this industry is the realty cost.

Tourism and Hospitality

There is a need for over 100,000 hotel rooms in the entire country. As an example, Bangalore has 4,500 rooms and the city is expected to add some 12,000 rooms in the next three years.

Telecom Equipment

As telecom service providers move from CDMA technology to GSM, they are looking to secure an estimated \$8 billion in investments. Local switch and component manufacturers are on the lookout for joint-venture partners.

The same situation exists in the auto-component sectors, where technology upgrades have to happen and there are large players like Bharat Forge, Amtek and Sundaram Fasteners.

Many of you must be wondering that if this situation is so good then is India free from a global slowdown? No it's not, but its massive domestic market insulates it from sudden, deep shocks. For example, as the global shipment index is currently showing a decline, one can argue that the Indian shipping industry could see some shrinking. But, India is a highly export-oriented economy with large players in every industry segment and their volumes offset any such shocks.

In the current environment, I believe a new list of multinational companies will emerge and it is going to include Indian companies. Many such homegrown companies have been extremely successful in competing with the global Goliaths who were eyeing to corner the Indian market. There is no question these companies are coming to your neighborhood and domestically they are not going to leave the space open to foreign competition.

In closing, I would like to summarize by saying that:

- Use India as your hub for taking on your competitors in the U.S., Europe, the East and Africa.
- Wage arbitrage can no longer be the sole reason to consider India. You will be competing not just with other foreign companies but domestic Indian companies.
- You should look at the cost efficiency of all the inputs, technical advances and access to those at lower thresholds than elsewhere in the world; the Indian market will provide you with new sources of revenues.
- It is our deep desire to ensure that Canadian enterprises grow with us, and consider us as their first port-of-call.

Thank you for listening to me and giving me this opportunity.

The appreciation of the meeting was expressed by Don McCutchan, Partner and International Policy Advisor, Gowling Lafleur Henderson LLP, and Vice-President, The Empire Club of Canada.



Sylvia Morawetz, Principal, S.A.M Solutions, and Director, The Empire Club of Canada, and Reginald Stackhouse, Past President, The Empire Club of Canada.



An Empire Club Head Table.



March 26, 2008

A joint meeting of The
Empire Club of Canada and
The Canadian Club of
Toronto

The Hon. Dwight Duncan

Ontario Minister of Finance

ONTARIO'S 2008–2009 BUDGET

Chairman: **Allan O'Dette**

President, The Canadian Club of Canada

Head Table Guests

Greg Wong, CFO, Gulf and Pacific Equities Group, and Director, The Canadian Club of Toronto; Linda Franklin, President and CEO, Colleges, Ontario; Len Crispino, President and CEO, Ontario Chamber of Commerce; Janet Ecker, President, Toronto Financial Services Alliance; Elyse Allan, President and CEO, GE Canada; Ilse Treurnicht, CEO, MaRS Discovery District; The Hon. David Peterson, Former Premier of Ontario, and Chair, Cassels Brock & Blackwell LLP; Lisa Baiton, Vice-President, Government Relations, Environics Communications, and Director, The Empire Club of Canada; Warren Jestin, Senior Vice-President and Chief Economist, Scotiabank; and Catherine S. Swift, President and CEO, Canadian Federation of Independent Business, and President, The Empire Club of Canada.

Introduction by Allan O'Dette

The Honourable Dwight Duncan delivered the Ontario provincial budget about 18 hours ago—the McGuinty government's fifth, and his second as finance minister.

I think we would all understand if he seems a little tired.

After all, there is a pretty good case to be made that the biggest day of the year for a provincial or federal government in a non-

election year, of course, is budget day. That is the day that governments tell their taxpayers what they plan to do with the tax dollars they receive.

And budget day is the day that governments let their citizens in on their overall plan. Budget day is a pretty big day.

For the finance minister whose job it is to oversee the writing of the budget, and deliver it in speech form to the legislature, it's a day requiring literally months of preparation.

Writing a budget means trying to please everyone in your own government, from the premier on down to every other cabinet minister, who all have a clear idea of what they want you to do. That's not easy.

The Honourable Dwight Duncan has been through all this before, as finance minister, as a cabinet minister vying for the attention of the finance minister, and as a member of the opposition criticizing the finance minister.

He knows that at the end of the day, what is said before and after the delivery of the budget is much, much less important than what is in the budget itself.

Yesterday he brought in a document that walks the line between all the competing interests and disparate points of view in Ontario.

And we are so very grateful that he is here with us this morning, not that many hours after delivering his government's biggest speech of the year, to tell us about it.

Ladies and gentlemen, please welcome to our podium today Ontario's Finance Minister, the Honourable Dwight Duncan.

Dwight Duncan

Good morning.

Yesterday I presented the 2008–09 Ontario budget to the legislature. I delivered some frank news about the state of our economy. We saw stronger-than-expected growth in 2007 of 2.1 per cent despite a more challenging external environment.

However, as you well know, private-sector forecasters expect modest growth in 2008. This is expected to strengthen to 2.8 per cent by 2010.

Certainly some sectors of our economy are quite healthy and will weather this slower growth period. However, other sectors and some communities and families are facing serious difficulties.

A slowing U.S. economy, high oil prices and a stronger-than-anticipated Canadian dollar are reducing growth forecasts and creating uncertainty. Our export-based manufacturing industries and the forest sector have reduced output and cut jobs.

We will maintain our approach of prudent fiscal planning and careful management. And we plan to invest in our economic foundations by implementing our five-point economic plan that will steer Ontario through these challenging times.

The plan makes investments in the skills and education of Ontarians, accelerates our investments in infrastructure, supports innovation, lowers business costs and strengthens key partnerships to maximize our future potential.

Yesterday, I outlined the steps we are taking to move that plan forward.

On the skills front, we are making new investments of some \$1.5 billion in our Skills to Jobs Action Plan. It will train unemployed workers for new careers, expand apprenticeships, build more spaces in colleges and universities and help students with education costs. A highly skilled work force is a key economic advantage—and at the moment, it's critical.

We also moved forward on an additional \$1 billion in municipal infrastructure including funding for roads, bridges, public transit and social housing. We have a long history of investing in Ontario innovators.

As you may know, I didn't wear new shoes to deliver the budget yesterday. Instead, I bought a new Blackberry, to symbolize my commitment to groundbreaking Ontario innovators.

I am particularly excited about our new 10-year corporate income tax exemption for burgeoning companies that would help commercialize research from Canadian universities or colleges. It's the first exemption of its kind in Canada. Qualifying companies would be ones that are

established after March 24, 2008 and before March 25, 2012 and will be exempt from Ontario Corporate Income Tax and Corporate Minimum Tax for its first decade in business.

We're hoping to encourage the growth of new companies in bio-economy, clean technology, advanced health technology, telecommunications, computer and digital technologies. But we are open to all kinds of innovation, the development of prototypes and bringing new products to market.

This proposal, together with our new Venture Capital Fund, will help launch the next wave of innovative firms in Ontario.

These incentives would also help bring new ideas to market and turn concepts into products and profits.

Our innovation investments help a whole range of groundbreaking companies. Atreo Medical in Hamilton, for example, which is run by a few graduate students at McMaster, has invented a CPR glove. Because CPR is very difficult to do, even by professionals, the glove was designed to help people perform it properly. It won Time Magazine's award as one of the best innovations of 2007.

That's the kind of innovation we need in Ontario. So to help ensure that innovation happens more often, we are also supporting skills and lowering business costs. Exactly what we should be doing to help Ontario grow.

Yesterday, I also announced that we are continuing with our government's plan to help lower the cost of doing business in this province.

In the 2007 budget, Ontario announced that it would accelerate the elimination of the Capital Tax to July 1, 2010 and reduce high Business Education Tax rates by \$540 million when fully phased in.

Back in the fall, I proposed a package of business tax relief of \$1.1 billion over three years—primarily benefiting manufacturers and resource companies.

In this budget I outlined a proposal to provide a further retroactive Capital Tax cut for manufacturers and resource firms. This would entitle them to \$190 million in rebates to help them invest and grow.

We also plan to enhance capital cost allowances, providing firms with \$433 million over three years to invest in new machinery and equipment.

Our total package of measures in this budget alone will provide \$750 million in tax relief to Ontario businesses.

And we initiated our plan to modernize business and financial regulations—to help reduce red tape for hard-working business people.

In the meantime, our government continues to make unprecedented investments in infrastructure, in health care and in education.

All of this helps to make Ontario a great place to live and invest.

Today, I'd like to talk to you about one of the great success stories of the Ontario economy. Financial services and professional business services are major drivers of Ontario's knowledge economy.

The strength of financial services has been one of the reasons that Ontario's economy has been resilient in spite of external challenges like high oil prices and the exchange rate.

Our financial-services sector alone employs 350,000 people. That's an increase of 12 per cent since 2003. Toronto has the third-largest concentration of financial-service employment in North America—behind New York and Chicago.

Toronto ranks 15th internationally as a global financial hub, according to international surveys. It is the nation's business, financial and cultural capital. The Toronto region is home to just under 1,000 business head offices—almost twice as many as Montreal and three times as many as Calgary.

Ontario has almost 1,500 head offices, accounting for 39 per cent of the Canadian total. That is a similar proportion to Ontario's share of Canada's GDP. Financial services underline the point that this province is a great place to invest in. In fact, two of the largest investment banks in the world—Merrill Lynch and UBS—have made major investments in Toronto in order to provide services for their global operations. They made these investments because of the skilled financial work force present in Toronto and because Ontario is a competitive place to do business.

We should be very proud—I am very proud—of the success of Ontario's financial sector.

So today I would like to announce the establishment of a Centre of Excellence for Education in Financial Services to promote the advancement of financial services in Ontario.

The idea is to create a virtual, region-wide network of educators, researchers, financial-service professionals, government partners and experts in innovation and technology. They will work collaboratively to ensure that the sector attracts and develops the best and brightest talent to financial services in Ontario. It would support postsecondary research in financial services by helping to fund research chairs. Seven Toronto-area universities and colleges are working with us to make the centre a reality.

The skills and talents of Ontario people are our most important economic strength. The Centre of Excellence will help secure our talent advantage—and provide a substantial resource for the sector.

We know it will further strengthen Toronto's global hub for financial-services education and training. We plan to invest \$4 million over three years in the Centre of Excellence. Support for this initiative will be provided by the Ministry of Training, Colleges and Universities and in partnership with the Toronto Financial Services Alliance.

I would like to particularly thank my former colleague in the legislature and former finance minister, Janet Ecker. As many of you know, Janet Ecker is the president of the Toronto Financial Services Alliance. Janet has driven this project from the outset. Her enthusiasm has been quite contagious. Her tireless efforts to highlight the importance of this sector should be credited to her ongoing commitment to the betterment of Ontario. Thank you, Janet.

The Centre of Excellence is a great example of how partners—across the divide of public/private and across the divide of politics—can work together to get great things accomplished. Partnerships are never easy. They involve hard work and compromise, but deliver real rewards.

Ontarians expect the federal government to be a full partner in responding to today's challenges and building tomorrow's prosperity. We have a plan to meet and overcome the challenges currently facing Ontario. But we would get better results faster in partnership with the federal government. We need a federal partner to come to the table for our manufacturing sector the same way it does for other sectors in other parts of the country.

Ontarians are proud Canadians. We're not looking for a special deal; we're looking for the same deal. I think it's time to step away from the partisan rhetoric, to step away from the cameras and sit down and actually work out what ideas would work best for all Ontarians. Mr. Flaherty, let us move past our differences and talk directly about what matters: the Ontario economy and how to best support it.

Partnerships aren't easy. Working together isn't always easy. But it is what people expect of us. And it is what we have a duty to deliver.

And so, ladies and gentlemen, I'd like to conclude by saying that we are open to partnerships. It's how we like to do business.

The McGuinty government has made great progress.

We've built a strong foundation for this province.

We have a pragmatic and balanced approach to the province's finances.

By investing in health care and education, we ensure that the most important government services are strong.

Our skills and postsecondary investments will ensure we have the work force to succeed.

Our investment in infrastructure will help keep Ontario business moving.

Our innovation initiatives ensure that Ontario will be at the cutting edge of new technology.

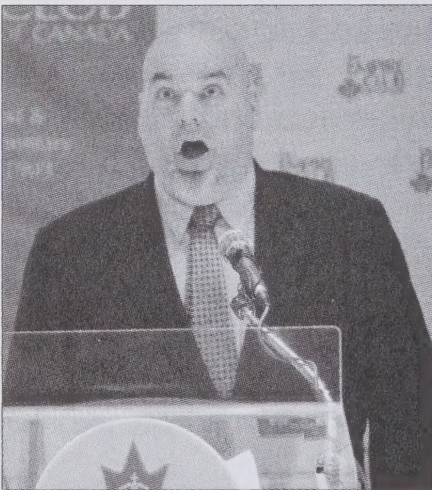
Our investments in reducing the cost of doing business will help make it easier to grow and innovate in this province.

And finally, our investment in the Centre of Excellence for Education in Financial Services will underline our advantage as a financial hub.

The resilience of Ontario's economy will continue into the future because of the ingenuity, perseverance and compassion of people like you.

Thank you.

The appreciation of the meeting was expressed by Catherine S. Swift, President and CEO, Canadian Federation of Independent Business and President, The Empire Club of Canada.



Barry St. Denis, the best voice at The Empire Club of Canada.



April 8, 2008

General John Craddock

NATO's Supreme Allied Commander, Europe

THE ROLE OF NATO IN AFGHANISTAN

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Bart J. Mindszenty, APR, FCPRS, Partner, Mindszenty & Roberts Corp., and Past President, The Empire Club of Canada; Melanie Harding, Grade 12 Student, North Toronto Collegiate Institute; Reverend Canon Philip Hobson, Rector, St. Martin-in-the-Fields Anglican Church; Shawn Francis, President and CEO, Medcan Health Management Inc.; Major-General Christopher Davis, CD, Director-General International Security Policy, National Defence Headquarters; Major-General (Ret'd) Reginald W. Lewis, Former Chief of Reserve Forces, and Past President, The Empire Club of Canada; Sergeant Ted Howard, Canadian Forces; and The Hon. William Graham, PC, QC, Chairman, The Atlantic Council of Canada.

Introduction by Catherine Swift

The North Atlantic Treaty Organization has a rich history, having been created in 1949 following the end of the Second World War. The purpose of NATO was to establish a system of collective defence whereby the member states agree to mutual defence in response to an attack by any external party. NATO had significant

roles in such historical events as the Cuban missile crisis and the long cold war between western nations and the Soviet Union. Post-Cold War, NATO underwent a strategic re-evaluation of its purpose, which in part entailed a gradual expansion to Eastern Europe. In February 1994, NATO took its first military action during the war in Bosnia. NATO air strikes helped bring the war in Bosnia to an end, following which NATO deployed a peacekeeping force.

In the late 1990s, NATO's membership expanded to include some former communist countries. And in 1999, NATO saw its first broad-scale military engagement in the Kosovo war. The expansion of NATO's activities grew further following the 9-11 attacks. NATO's current focus of activity is Afghanistan, as we Canadians are well aware.

Looking at the history of NATO and its many activities over the years, it is clear that its role is expanding in importance and influence. And it is also clear that, despite some politicized debates to the contrary, its role extends very far beyond peacekeeping.

We are very fortunate to have as our speaker today NATO's Supreme Allied Commander Europe, General John Craddock. Following graduation from West Virginia University, he completed a tour of duty with the 3rd Armoured Division in Germany followed by a tour at Fort Knox Kentucky with the U.S. Army Armour and Engineer Board. He then completed the Armour Officer Advanced Course and returned to 3rd Armoured Division as a tank company commander.

In 1989, he assumed command of the 4th Battalion 64th Armour 24th Infantry Division (Mechanized) at Fort Stewart, Georgia. During this posting he was deployed to Operations Desert Shield and Desert Storm. Following that, he attended the U.S. Army War College, assuming command of the 194th Separate Armoured Brigade, and subsequently became Assistant Chief of Staff (Operations) for III Corps at Fort Hood, Texas.

In 1996 he moved to the Pentagon as Assistant Deputy Director for two years, and then he moved back to Germany. It was during this time that he was designated Commander U.S. Forces for the initial phase of operations in Kosovo. A tour as the Senior Military Assistant to the Secretary of Defence preceded the post of Combatant Commander U.S. Southern Command. General Craddock led the U.S. Southern Command from 2004 until 2006.

Please join me in welcoming General John Craddock.

John Craddock

Thank you very much, Catherine. You did that beautifully. I must admit, it sounds like I can't hold a job with all those different assignments. But thank you so much. It's great to be here, ladies and gentlemen, and thanks again for the warm welcome. It's a pleasure to be back in North America and this is my first opportunity to speak to an audience in Toronto. This is my Canadian debut—which reminds me of a story, if I may.

Apparently, playwright George Bernard Shaw and Winston Churchill were quite good friends but also antagonists over the years. Shaw once sent a telegram to Churchill. It said, "Enclosed two tickets for opening night of my new play. Bring a friend if you have one." Churchill wrote back, "Unable to attend opening night, will attend second performance, if you have one."

You've got to admire Churchill's wit, but I must say he said also, "You can always count on the Americans to do the right thing ... after they've tried everything else." That's one of those sayings that I think makes a lot of sense but not one of my favourites.

I'm here today to talk about NATO, its operation in Afghanistan, its future and the vital role that Canada plays in the NATO alliance. Canada has a distinguished military history, sometimes shortchanged in the United States by people that dwell on the first time we shared a battlefield back in 1812.

You have a long history of selfless service. About 10 years ago the United States Army adopted selfless service as one of its codified formal army values. This country has always been in the forefront contributing more in proportion to its size than most others, and that continues today with your commitment in Afghanistan.

Selfless service is personified by the non-commissioned officer, who I will recognize in a few minutes. NATO dedicated 2008 to our non-commissioned officers, recog-

nizing the vital role played by non-commissioned officers within the alliance. In many ways they are ambassadors for their nations, they are helping us transform the alliance and we cannot succeed without them.

So today I'm truly pleased to have the opportunity to meet and recognize Sgt. Ted Howard. Sgt. Howard is the epitome of selfless service, an outstanding Canadian soldier. He embodies the non-commissioned officer qualities we are highlighting this year throughout NATO—courage, sacrifice, initiative, performance and empowerment. Sgt. Howard is a veteran of 15 years. He recently received the prestigious Canadian Expeditionary Force Commander's Commendation for his achievements in Afghanistan. His skills were recognized early when he worked on civil military operations, nation building and ultimately as a part of a Provincial Reconstruction Team in a quite dangerous area in Afghanistan. He was personally responsible for the successful completion of more than 180 projects, working closely with municipal officials in Kandahar City and the Director of Women's Affairs and the Director of Amputees.

His projects included 15,000 man-days of labour and were personally recognized by President Karzai and by the foreign press. He also shared in the painful duty of helping repatriate fallen Canadian soldiers. Sgt. Howard, thank you so much for what you've accomplished. You are indeed an inspiration, not only to your peers, but to senior leaders across NATO and across Afghanistan. And your good work continues as you prepare, and indeed inspire, the next group of soldiers from Ontario who will follow in your footsteps in doing invaluable work in Afghanistan. I now want to present you a Commander's Coin for your great efforts.

As we speak, more than 2,500 brave men and women from Canada, who are a vital part of the International Security Assistance Force (ISAF), are in Afghanistan conducting a mission that's critical, indeed critical, to global security. Yet many questions have been raised in public

forums about this mission. Is our involvement the correct response? Has it been effective? What is our national interest? Is NATO failing or, as has been said recently, "Make no mistake, NATO is not winning"? These are just a few examples. I'd like to address these and other questions today as I highlight the importance of this mission and the importance of our commitment to its success.

NATO is not failing, I assure you. Nothing could be further from the truth. We are succeeding and we will continue to succeed. As NATO's military commander of operations, I'm not in the business of justifying missions. Rather, my job is to execute as capably and effectively as possible. I would like to share a few words with you from NATO's Secretary General in describing just what is at stake for Canada, the United States and our partner nations in the ISAF mission in Afghanistan.

First and foremost, our very own security is at stake here and in Europe, as much as Afghanistan's security is at stake. Just as economies are increasingly interdependent in our globalized world, our external and internal security is equally interwoven. Afghanistan is a mission of necessity rather than of choice. Less than a decade ago, Afghanistan was a hotbed of terrorism. Our mission there is crucial to ensure that the nation of Afghanistan does not return to a place that terrorists, transnational terrorists, call home.

Secondly, the ISAF mission has a defining effect on the evolution of our relationship with Asia. I do not wish to delve into the geopolitical realm today, but one need only to look at the borders of Afghanistan to recognize the complexity of the geopolitical situation in that region. Pakistan, Iran, China, and the Muslim Republics of the former Soviet Union are all affected by the outcome in Afghanistan. Extremism and terrorism must no longer pose a threat to stability in that region or beyond. With so much at stake, unwavering NATO support in Afghanistan remains essential.

Just last week at the summit in Bucharest, the heads of state and government of the 26 NATO nations and its partners reaffirmed a dedication to the mission in Afghanistan, citing a firm and shared long-term commitment toward helping the Afghan people. Every time I go to Afghanistan, and I've gone about once a month for the last 15 months, I see progress. Indeed, uneven progress, not as fast or as far-reaching as we'd like, but there is progress.

NATO's mission is to conduct military operations to assist the government of Afghanistan and the establishment in the maintenance of a safe and secure environment with full engagement of the Afghan National Security Forces. Due to the success of high operational tempo and focused intelligence-led operations by the Afghan National Army and by the International Security Assistance Force, the opposing militant forces—we call them the OMF—have adopted terrorist tactics such as roadside bombing attacks and attacks against civilian targets. The death of Private Street last week is an example of their absolutely indiscriminate but calculated attacks designed to strike at the resolve of not only the Afghan people but of those committed to progress in Afghanistan.

While this activity has served to affect Afghan and international public opinion, these tactics do not allow OMF expansion on the ground nor do they undermine our commitment. Through a series of tactical victories, ISAF has geographically constrained the OMF forces' ability to conduct sustained activity. Seventy per cent of the security incidents last year, 2007, occurred in only 10 per cent—that's 40, four zero—of the 396 districts in Afghanistan. These districts are home to only 6 per cent of the Afghan population. So far this year, 2008, 91 per cent of the insurgent activity has been reported in just 8 per cent of the districts, and these districts are almost exclusively in the South and the East.

NATO is working to help the Afghan government develop its forces so it can ultimately provide for its own security without outside assistance. The Afghan National Army, ANA, continues to grow in size and capability and now exceeds the size of ISAF. Since May 2007, the Afghan Army has fielded nine infantry battalions, four commando battalions, six support battalions, three brigade headquarters and three aviation units. It now plays a leadership role in 25 per cent of all military operations in Afghanistan, and in the most hotly-contested regions, the Afghan National Army participates in more than 90 per cent of all ISAF operations. And also of note, today 90 per cent of the Afghan people, the Afghan public, see the ANA as an honest and fair institution, and 89 per cent say it definitely helps promote and improve security.

Conversely, the Afghan National Police Force, which has grown quickly in numbers, continues to lag significantly behind the Afghan National Army in professional ability. Police performance needs to urgently be enhanced. Recent pay and structural reforms will indeed help, but corruption, criminality, and a lack of qualified leadership remain the most pressing issues.

NATO recognizes that a military solution alone does not suffice to secure and stabilize the country. Security, governance and reconstruction and development activities must complement and support each other. In the area of reconstruction and development, it is clear the Afghans are experiencing progress. To date, more than 7,500 civil military co-operation projects have been launched across Afghanistan, 75 per cent of which are now complete. Real GDP growth is expected to exceed 13 per cent in the fiscal year ending March 2008. The education of Afghanistan's children continues to move forward in most regions. Enrolment now exceeds six million students, including more female students than ever before. In 2001, 8 per cent of the Afghans had access to some form of health care. Today that number exceeds 80 per cent. Child mortality

rates have been reduced by 25 per cent since 2001, and 16 million vaccinations against childhood diseases have been administered in the last five years.

Through the continued support and vital contributions made by Canada and the other 39 nations that make up ISAF and by soldiers like Sgt. Howard, NATO is making a difference in Afghanistan. However, we can and must do more.

So how do we do that? Well, to start with, we, NATO, have yet to completely fill up the agreed statement of requirements of forces for Afghanistan. We're still short key capabilities and enablers such as intelligence, surveillance, and reconnaissance capabilities, communications, engineering, and air support. The fact is each nation has its own internal issues and they must address those issues. But a completely resourced force sends a clear message to our adversary and to the Afghan people that NATO is committed to achieving success.

Our continued inability to fill these stated requirements creates and sustains a gap between what is required and what is present in the theatre. I maintain that it is this gap that enables the OMF to operate in Afghanistan, and whether we speak of Afghanistan or yet-to-be-named operations in the future by other NATO forces, the enemy will always operate in the space created by what we need and what we have.

Additionally, more than 80 national caveats restricting the use of NATO forces limit the flexible employment of those formations. Caveats, like the shortfalls, increase the risk to every soldier, sailor, airman and marine in Afghanistan. The fact is NATO forces are exceptional but they need as much flexibility as possible to be effective on this asymmetric irregular battlefield.

In addition to NATO members and partners, the international community as a whole must increase development efforts. Through a comprehensive approach, an approach that integrates the efforts of all

parties, civilian and military, we can and we will achieve success. NATO's military will set the conditions to allow the government of Afghanistan to provide infrastructure leading to investment and job creation. The jobs are needed to drive a wedge between the insurgents and the day fighters who are merely there with the Taliban because they have no employment, no other means to earn a wage to put food on the table for their children.

Everything we do must be seen in the context of how it helps the government of Afghanistan achieve its good governance mandate. We must work closely with the government of Afghanistan at all levels to reduce corruption and enable it to convince its citizens that government can be a positive factor in their lives.

Despite the negative sentiment that's dominated the airwaves and the editorial pages in recent months, I remain firm in my conviction that our efforts, NATO's efforts in Afghanistan, are making a difference. We are succeeding, we are making the lives of the vast majority of Afghans better and we are creating conditions for a better future.

As I peruse the headlines, often in the *Globe and Mail*, the *Toronto Star* and other papers, I know the mission in Afghanistan is in the forefront of the minds of the citizens of Canada. Her sons and daughters are indeed paying a price for our security. As you well know, some 82 of Canada's soldiers have given their lives in the name of freedom—freedom from the fear of terrorism and freedom for the people of Afghanistan.

The NATO summit in Bucharest is now history, a thing of the past. Our heads of state and government published a strategic vision to guide our engagement, pledging to support each other in sharing the burden, to provide our military commanders the tools they need for success by filling the remaining shortfalls and forces, and to provide maximum flexibility in the use of our forces. As the commander of NATO operations, I'm encouraged by this stated commitment and I look forward to seeing it fulfilled.

So where does our alliance go from here? Standing a mere 100 kilometres from the hometown of one of Canada's national heroes, I'd like to borrow a line from "The Great One," Wayne Gretzky. "A good hockey player plays where the puck is, a great hockey player plays where the puck is going to be." The 60,000 deployed NATO military forces on three continents are a visible and effective demonstration of NATO's resolve to collectively meet global security challenges. As NATO continues its transformation toward an agile flexible force capable of rapid reaction in times of crisis, we in NATO must be ready to skate to where the puck is going to be or even to follow the puck into the corner if need be.

I rest assured, knowing that Canada along with its 25 partners that make up the alliance will continue to provide the unwavering commitment demanded by our current security environment. In February, your Prime Minister told the Conference of Defense Associations that: "Countries that cannot or will not make a real contribution to global security are not regarded as serious players. They may be liked by everybody, they may be pleasantly acknowledged by everybody, but when the hard decisions get made they will be ignored by everybody. That's not what Canadians want. They want to make a positive difference in a dangerous world. They want us to lead."

And I can assure you that Canada is one of the most admired and respected nations in the alliance. Their continued and steadfast commitment to NATO has served as a pillar of strength for nearly 60 years. Thank you for the sacrifices you've made in Afghanistan and elsewhere in the name of freedom and our collective spirit.

Thank you very much.

The appreciation of the meeting was expressed by Bart J. Mindszenty, APR, FCPRS, Partner, Mindszenty & Roberts Corp., and Past President, The Empire Club of Canada.



April 9, 2008

Peter C. McCarthy

Chairman, Canadian Life and Health Insurance Association, and President and CEO, AIG Life Insurance Company of Canada

CANADA'S LIFE AND HEALTH INSURANCE INDUSTRY

Chairman: **Jo-Ann McArthur**

First Vice-President and President-Elect,
The Empire Club of Canada

Head Table Guests

David Goodwin, Insurance Representative, Ontario East Insurance Agency Ltd., Representative, Partners in Planning Financial Services Ltd., and Director, The Empire Club of Canada; Sara Butt, Grade 12 Student, Bloor Collegiate Institute; Grant Kerr, Associate Pastor, St. Paul's United Church, Brampton; Gary MacMillan, Resident Vice-President and CEO, American International Companies, Property and Casualty Division; Dr. Rueben Devlin, President and CEO, Humber River Regional Hospital; Gareth S. Seltzer, President, TWS Management Group, and Past President, The Empire Club of Canada; Terry Zive, Second Vice-Chair, ADVOCIS, and President, Zive Financial; and Crawford Spratt, Senior Partner, Blaney McMurtry LLP.

Introduction by Jo-Ann McArthur

I have no background in the life and health insurance industry other than as a customer, but I do recognize the significant challenges facing the industry these days—financial market instability, risk management, privacy issues—just to name a few. The industry also has a new product opportunity with the federal budget announcement of the new Tax-Free Savings Account to help Canadians invest in their future.

In the face of these challenges (and opportunities) under Mr. McCarthy's leadership, AIG Canada has not only become a leading provider of investment-focused universal life, but has launched new products like single premium life annuities and a bundled mortgage protection plan that combines preferred term life insurance with critical illness coverage.

He continues to search for new innovative products through AIG's relationship with 15,000 producers, representing a strategic shift in the industry—and it seems to be paying off.

Mr. McCarthy was appointed President and Chief Executive Officer of AIG Life of Canada in February 2000. Previously he served as the National Sales Director upon joining AIG in May 1999.

Mr. McCarthy began his insurance career in the Halifax, Nova Scotia head office of Maritime Life in 1986 and worked in a number of capacities in administration, management and sales management throughout all lines, including employee benefits, segregated funds, and individual life insurance. He has also worked on the ground as an independent insurance broker.

Mr. McCarthy is married with three children and currently resides in Montreal.

He is also a member of a number of related organizations, most notably serving as Chairman of the Board of Directors for the Canadian Life and Health Insurance Association.

Please join me in welcoming Peter McCarthy.

Peter McCarthy

Thank you very much Madam President. Honoured guests and the head table and all of you who have taken the time to come here for lunch today, thank you.

Before I start my main comments I wanted to talk about another issue. Today was designated Vimy Ridge Day by the federal government of Canada in 2003. It marks the anniversary of the start of the Battle of Vimy

Ridge. The Battle lasted until April 14, 1917. Three thousand five hundred and ninety-eight Canadian soldiers were killed in the battle and over 7,000 were injured. For many historians the Battle of Vimy Ridge was the defining moment in our great country's history. I think we would be remiss not to reflect upon the sacrifices our soldiers made 91 years ago today and we should all be thankful for their efforts on our country's behalf.

Now on to my main comments.

Thank you for the opportunity to join you here today at the Empire Club to talk about the life and health insurance industry and the Canadian Life and Health Insurance Association. I am pleased to have the opportunity to share some of my thoughts on where this industry is situated on Canada's current economic landscape, as well as on the world stage, and to describe the increasingly important role the industry can play in improving Canadians' health and lives.

As the markets quiver with every bit of bad news and so many other usually rock-solid sectors face unexpected losses, life and health insurance companies have provided a welcome sense of financial security for investors and a true level of comfort for the people we serve. In other words, for an industry that was once looked upon as a bit bland, we now seem pretty appealing. A quote from Woody Allen sums up the old image: "There are worse things in life than death. Have you ever spent an evening with an insurance salesman?" I know that Woody made his living coming up with those kinds of quips, but I have to admit that that one hurt. However, I think that times have definitely changed and the Canadian life and health insurance industry has made great strides over the years in what it actually means to its customers and to our country. Perhaps what we need to do more of is to let people know what we're all about—and I look upon today as a great opportunity to share some of my own sentiments with you.

What does the life and health insurance industry do for Canadians? Well, we are no longer a one-trick pony. What we do is provide financial security to Canadians—we insure people; we manage their retirement and savings needs; and we cover supplementary health expenses that many working Canadians benefit from every day.

Before I go any further, I do want to take the opportunity to address another common misconception. Although the word “insurance” is generally understood by most Canadians to be a bit of a catch-all term, our industry does not insure homes, offices or cars. That important job belongs to our colleagues in the property and casualty side of the business.

Now that we’ve cleared that up, let me provide you with a snapshot of the industry.

I won’t burden you with a long list of numbers but I think you would be surprised at the industry’s profile. For instance, we provide a wide range of financial security products to about 24 million Canadians from all walks of life and age groups. These products include life insurance, annuities and supplementary health insurance. There are 106 life and health insurers in Canada and the vast majority of these companies, which account for over 99 per cent of the business in force, belong to my association.

You may think that we simply collect premiums, but in fact more than \$1 billion a week is paid out in benefits. The vast majority receiving these benefits are living policyholders who receive annuities, disability payments and supplementary health benefits.

Our asset base is more than \$400 billion and we employ 120,000 people, either directly or as independent agents.

I can also tell you that the industry is generally pleased with the extent to which Canada’s public policy framework supports its international competitiveness. An important ingredient that has contributed to our industry’s success is Canada’s strong regulatory and

supervisory framework. We are blessed with experienced and dedicated regulators who promote sound legislation while seeking to reduce regulatory burden.

Because of this strong domestic base I just described, Canadian life and health insurance companies have been able to expand worldwide and have already established a long and successful history of operating internationally.

Today the industry provides one of Canada's most important exports with Canadian life and health insurance companies operating branches and subsidiaries in more than 20 countries around the world, providing financial security to millions more people. Over 56 per cent of the industry's premiums are generated abroad and the three-largest Canadian life and health insurers are now in the Top 12 in the world, measured by market capitalization.

The high degree of international competitiveness of Canada's life and health insurance industry also brings a number of important benefits to the Canadian economy:

- The creation of jobs—many functions in the head offices of Canadian insurers with foreign operations relate in whole or in part to their foreign business;
- Contribution to the continued financial strength of the industry;
- Technological innovation;
- The fostering of Canada's good name and image abroad; and
- Assistance in paving the way for other industries and other sectors seeking to break into those markets where Canadian life and health insurers already have a stronghold.

Finally, we are innovative, responding to the changing needs and expectations of our customers. For instance, in recent years some of our members introduced "index-linked" life insurance policies, flexible retirement options

and expanded health insurance products covering travel, critical illness and long-term care.

So you can quickly see, we are not your grandfather's or even your father's insurance company. We are a vital player in the Canadian economy that provides financial security over the long term to clients and investors right across the country.

Insurance by its nature is prudent and so are our members. We have an excellent working relationship with regulators. The federal oversight body (OSFI, the Office of the Superintendent of Financial Institutions) publicly states that the life insurance industry in this country is well capitalized with capital ratios greatly above target levels. The major rating agencies also attest to the strength of our members. With all of the trouble we read about in the daily business pages, this strong, stable report card is a very good thing—for our companies and for you who all rely to some extent on our services. The cost of complying with this oversight creates quite a burden and if there was one change we would like to see it would be the harmonization of provincial and federal regulators to allow us to grow and to be more efficient.

In a recent submission on competition policy review, my association made some specific recommendations in this area to reduce regulatory burden, eliminate internal trade barriers, reduce taxation, ensure a skilled work force and not grant patents that cover business methods.

In today's climate that solid picture should be welcome news to many. The recent commercial paper—ABCP or Asset-Backed Commercial Paper—crisis quite rightly has made many Canadians nervous. Let me assure you today that the Canadian life insurance industry has minimal exposure to this type of short-term paper. In fact most member companies have no exposure whatsoever. By its very nature, life insurance is by and large a long-term business and related investments are correspondingly long-term.

Earlier I touched on innovation as a modern driving force in the life and health insurance industry. I would like to expand a bit on that topic as it relates to the ongoing Canadian health-care debate.

For a long time there seemed to be two competing camps between those clinging to a strictly publicly funded health-care system and those who saw a role for the private sector. Even today, “no two-tier health” is a common slogan as the debate rages on. We prefer to call private health benefit coverage a “complementary” service. I believe our industry can play an increasingly important role in providing the kinds of services that could never be economically feasible for the public system.

Already about 22 million Canadians are protected by some form of private coverage. Payments to Canadians in private health and disability insurance benefits amounted to \$18.6 billion in 2006. Without this extensive array of private coverage, pressures on already scarce public resources would be even more significant than they are today.

I guess we often take this private coverage for granted, but think about how many of the following services you already receive through your employer or pay-as-you-go premiums—dental care, prescription drugs, paramedic care, prosthetics, ambulance charges, private or semi-private hospital beds and out-of-country travel insurance.

Today there are a number of initiatives being considered that could impact on supplementary health plans. One of them is the recognition of mental health care. Another key example is the national pharmaceuticals strategy that includes the treatment of generic drugs and a catastrophic drug policy, among others. While considering these worthwhile initiatives, every attempt should be made to take a national approach so that costly inefficiencies between provinces are avoided.

I believe the life and health insurance industry can play an expanded role in this current health-care climate. It's clear the current model is not sustainable and access to new funding on the private coverage is the way to go. We are not the only ones saying this as you know.

Recently an important report was released in Quebec, written by Claude Castonguay, who is recognized as the father of the province's public health-care system. His task force recommended that the scope for private insurance should be expanded to include other services in addition to knee, hip and cataract surgery and that home-care coverage should be expanded for the elderly. We welcome this report as it recognizes the industry's major contribution to the well-being of Canadians and explores real opportunities for expanding services covered by the private sector.

Another misconception that continues to be played out in the media is that, if Canada permits further incursions into the public system by private insurance, we will be heading down the slippery slope to an American-style health-care system. That is simply not the case! The Canadian life and health insurance industry strongly supports a system that has the public system as its underpinnings. However, Canadians continue to pay millions of dollars for the health-care services they and their families need out of their own pockets—in fact some 15 per cent of today's overall health costs are not covered by either public or private plans. There is plenty of room for the life and health insurance industry to provide further financial assistance and security to Canadians by helping them to pay for these important services.

For example, as Canada's population ages, many more Canadians will need to access long-term care facilities and services than ever before. It is highly unlikely that the public system will be fully able to support these needs. Life and health insurers can assist by helping Canadians to anticipate and plan for their later years through long-

term care and critical illness insurance, while at the same time taking some of the pressure off the public system.

To sum up, Canada's life and health insurance industry is solid, secure and successful. We provide stability for investors and beneficiaries. We are a major employer. We have been around about as long as this country and intend to be around even longer into the future. Far from being static, we are looking at new ways to improve the well-being of Canadians to provide them with good health and a long life. Moreover, as the public policy debate on health care and other important areas evolve, we will want to find ways to contribute and be part of the "solution" to the challenges that face this country now and into the future.

Thank you.

The appreciation of the meeting was expressed by David Goodwin, Insurance Representative, Ontario East Insurance Agency Ltd., Representative, Partners in Planning Financial Services Ltd., and Director, The Empire Club of Canada.



Tony van Straubenzee, Past President, The Empire Club of Canada, and Jo-Ann McArthur, President Elect, The Empire Club of Canada.



April 17, 2008

Paul Cellucci

Former U.S. Ambassador to Canada, and Special Counsel, McCarter & English LLP, in Boston

James Blanchard

Former U.S. Ambassador to Canada and Partner, DLA Piper U.S.

FORUM ON THE 2008 UNITED STATES PRESIDENTIAL ELECTION

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Stephen Hewitt, Manager, Corporate and Public Affairs, TD Bank Financial Group, and Director, The Empire Club of Canada; Joseph Singh, Grade 11 Student, St. Michael's Choir School; Reverend Canon Kimberley Beard, Senior Pastor, St. Paul's On-the-Hill Anglican Church, Unionville, and Director, The Empire Club of Canada; Mark Feigenbaum, Chairman, Republicans Abroad, Canada; John Ibbitson, Moderator, Washington Columnist and Correspondent, The Globe and Mail; Scott Jolliffe, Chairman and CEO, Gowling Lafleur Henderson LLP; Lisa Baiton, Vice-President, Government Relations,

Environics Communications Inc., and Second Vice-President, The Empire Club of Canada; Adrienne Jones, Chair, Democrats Abroad Canada; Andrew T. Molson, Vice-Chairman, Res Publica Consulting Group, and Member of the Board of Directors, Molson Coors Brewing Company; Raymond Chrétien, Senior Advisor, Fasken Martineau DuMoulin LLP, and Former Canadian Ambassador to the United States, France, Belgium, Mexico and Congo; and Mike Pedersen, Group Head, Corporate Operations, TD Bank Financial Group.

Introduction by Catherine Swift

The current U.S. election is arguably one of the most interesting ones we have seen in some time. It is the first election since 1952 that neither an incumbent president nor vice-president is in the running. From my personal perspective, I have never experienced a U.S. election that has attracted so much attention and interest among Canadians. That being said, I did hear recently that there are many people in the U.S. who are suffering from a new syndrome characterized by the inability to become aroused by any of the candidates. This syndrome has been called “electile dysfunction.”

We are very fortunate today to have two former U.S. ambassadors to Canada, one Democrat and one Republican, here to discuss the election and its implications for Canada.

Paul Cellucci received his law degree from Boston College Law School in 1973 and also graduated from the Boston College School of Management where he served in the Reserve Officers Training Corps. His career in government began in 1970 when he was elected to the Hudson Charter Commission. In 1976 he was elected to the first of four terms in the House of Representatives. In 1984, he was elected to the Massachusetts Senate and during his third and final Senate term became the Assistant Republican Leader. He was elected Lieutenant-Governor of Massachusetts in 1990, and became Governor in 1997. He became the twentieth United States Ambassador to Canada in April 2001.

James Blanchard received a BA from Michigan State University in 1964 and an MBA from the same school in 1965. He studied at the Minnesota Law School and was admitted to the Michigan bar in 1968. After several years of practicing law, he was elected as a Democrat to the House of Representatives, serving from 1975 to 1983. He then served two terms as Governor of Michigan from 1983 to 1991. He was then appointed Ambassador to Canada, a position he held from 1993 to 1996.

Our moderator today is John Ibbitson. John graduated from the University of Western Ontario with an MA in Journalism in 1988. Since then, he has worked as a reporter and columnist for the Ottawa Citizen, Southam News, the National Post and the Globe and Mail. He has written several books of fiction as well as on political topics. In August 2001, he was appointed Washington Bureau Chief of the Globe and Mail.

John Ibbitson

Ladies and gentlemen, good afternoon. It is a pleasure and an honour to be with you today to have a forum on the United States 2008 presidential election with two people who know more about what's going on in that election than many others—one a very well-informed Republican and one a very well-informed Democrat.

This is an unusual format. Our goal here is to get a dialogue going through a series of questions and answers leading to what these gentlemen in a previous life might have called a full and frank exchange of views. We are very keen to hear from you so rather than just waiting until 15 minutes before the end of the session and then asking for questions, we would like to do something different. I believe you have cards on your tables. I assume you all have pens. If you would like to ask a question of the candidates, please just write it out now or at any time during the course of the afternoon and if you raise your hands someone will come and take the card from you. They will pass it up to me and I'll ask the questions. This is your chance to prove that you are much better at asking questions than reporters. There's one other note. All that stands between Ambassador Blanchard and his family in Florida is a three o'clock flight, so this session will end at one-thirty absolutely promptly. I have given him my word on that.

I'd like to start, if I may, with Ambassador Cellucci with a question about the Republican race. John McCain has had the presumptive nomination for more than a month and yet he still seriously lags in fund-raising against the

Democrats. There are real questions within the conservative base of the party as to whether he is the right candidate for them and of course he has the legacy of having to answer for a Republican administration that at this point maybe the least popular since Herbert Hoover, so what kind of a hill does John McCain have to climb and how do you see him climbing it?

Paul Cellucci

We have to start from the premise that this race should be won by the Democrats. We have an unpopular war in Iraq, we have an economy that's in decline, and, you're right, I think the President's approval ratings are around 28 per cent. Of course Congress is at 22 per cent, even lower, so the Democrats should win. You also see it in the turnouts in the primaries and the caucuses, which have been far greater with Barack Obama and Hilary Clinton slugging it out. There's real enthusiasm and momentum on the Democratic side. Barack Obama has done an unbelievable job of raising money over the Internet, small contributors pouring in millions and millions of dollars, and it has been more of a challenge on the Republican side both in terms of turnout and raising money. It looks good for the Democrats but the interesting thing is the Republicans have actually nominated or will nominate a candidate who I believe is going to run very strongly in the fall. If you were to ask Republicans their views about Barack Obama they would be negative. If you were to ask Republicans their views about Hilary Clinton they would be quite negative. If you ask Democrats their views of John McCain they have a favourable view of him. That's a remarkable thing in American politics. He is a war hero. He's been tested under fire. He's independent. Even though he's a Republican, people see him as being very independent of the President. So I think that this campaign has had a lot of twists and turns and there will be a lot more twists and turns. I don't think either one of us

can predict today the outcome, but I know that John McCain will be competitive and I believe he will rally the conservatives in the party with either one of the democratic candidates and he will get the money he needs to be competitive. I think this election is going to be close.

John Ibbitson

What do you think Mr. Blanchard? Do you think John McCain is the one person who could defeat either Barack Obama or Hilary Clinton?

James Blanchard

Yes, I think this election is going to be close. Two years ago I predicted a Democratic tsunami with the mid-term elections and we had that. I have that feeling in terms of the energy of Democrats, yes, but John McCain is the only Republican the party could have nominated that can make this a race. The reason is he has found a way despite the Iraq war and the huge federal deficits to distinguish himself from George W. Bush. Whether it's opposing torture or talking about multilateral diplomacy in Europe, supporting climate change or supporting campaign finance reform, he has an independent profile. Democrats of course are going to argue that John McCain is more of the same—tax cuts for the rich, prolong the Iraqi war, enormous loss of respect in the world, huge federal deficits, where under Clinton we had a surplus. It is going to be an interesting battle. I have to declare myself here ladies and gentlemen. I am co-chair of the Hilary Clinton campaign in Michigan but we have two fabulous candidates. I'm worried that this protracted campaign is diminishing them and they are going to need each other to win. I think they will embrace each other when the moment arrives, but in the meantime, as Ambassador Cellucci referred to, Barack Obama raised \$50 million in small contributions over the Internet in the month of March. Hilary raised about \$25 million in small contributions on the Internet. This is enormous. There's nothing

like it going on in the Republican Party. All the young voters are in there. Most of the younger voters prefer Obama but we are having record turnouts in all of our primaries and caucuses. We have not seen the likes of this, and the new voters, the millennials that we have talked about privately, people born between 1982 and 2002, are moving into the electorate. There are 42 million of them. They're much more civically inclined than their parents or grandparents. They appear to be voting and turning out. They are going to reshape the map of America. The only question is whether that is in this upcoming election or in four years. The Republicans have run into a perfect storm with all the problems including 81 per cent of the public feeling the country is heading in the wrong direction, but I think presidential elections tend to be close and I think we are going to see either a very close election or a Democratic blowout. It won't be the reverse.

John Ibbitson

You have hit on the Democratic race. Speaking personally this is the most exciting political race I have ever seen in my career as a journalist, but it is getting more and more negative. Hilary Clinton started out questioning Barack Obama's qualifications as a commander-in-chief. She then raised doubts about his sincerity in the renegotiating of the NAFTA deal but we will get to that in a subsequent question. Now she is accusing him of being elitist and out of touch in comments that he made about rural voters. This is corrosive and the McCain camp are taking careful notes so what is going to happen? Does this get resolved after June 3rd and the party comes together and bygones are bygones or what are the dangers that this goes all the way to the convention and splits the party?

James Blanchard

I don't think it will go all the way to the convention, which will be late August. We cannot wait until late

August to patch up our party. It would be a losing effort so I think we are going to know who the nominee is by the middle of June, maybe by the end of June. Right now Barack Obama leads, as you know, by about 135 or so delegates. That's not a lot when you look at the totality of it. The way for Hilary to get the nomination is to win big in Pennsylvania, to win most of the remaining states, and convince the super-delegates that she is much stronger against John McCain and I think in the major states she is. Both candidates by the way will need what are called super-delegates to get the nomination. They cannot do it with the delegates who are elected in these primaries. There are not enough of them. If Obama is ahead in delegates and is similar in the polling against John McCain and if the super-delegates were to go for Hilary it would be very difficult on the party. They need each other. I hope that if Hilary gets the nomination, she offers the vice-presidency to Barack Obama. Whatever happens they are going to have to embrace each other, they are going to have to swallow their pride, and they are going to have to campaign vigorously for each other around the country. But I am worried that this long drawn out campaign has diminished their stature. It's interesting though on the issues. They are pretty much alike and that's a good sign. Whether it is health care or ending the war in Iraq I hope it's a good sign for the future of our country.

Paul Cellucci

I talked earlier about the momentum and the motivation within the Democratic Party right now. If you think back to the 2004 election, John Kerry thought he had won on election day because he turned out in Florida and Ohio the numbers the party had determined it needed to win and a lot of the exit polls confirmed that by saying Kerry would win Florida and Ohio. Yet the Republicans turned out even more, particularly in the rural, suburban voting districts, and President Bush won that election. This is a

great challenge for the Democrats because Hilary Clinton will try to convince the super-delegates that she can win the big states they need to win. She is running ahead of Obama in Ohio and Pennsylvania, in Florida, and in Michigan versus McCain. In most of those states she is either ahead or tied with McCain and Obama is behind. She is going to make the case that she can win those big states and the Democrats cannot win without those states. If she were to get the nomination and Obama is denied it and his supporters think it has been taken away from him, how do you then motivate his supporters to continue working and get out to vote in November? Even if Obama gets it, a lot of the Hilary supporters may well go to John McCain. I mentioned earlier he's got very variable views from Democrats. This is the big challenge to the Democrats. The perfect solution is to put these two on the ticket together. If someone can figure out how you do that I think they are going to get a prize from the Democrats.

James Blanchard

The two of them may not know it but we are all going to be working to get them on the ticket together. They are going to need each other and by Labour Day they are going to be loving each other and liking it because it is our election to lose as Democrats for all the reasons we have mentioned. It really is. Most of you people here are aware of it but it is ours to lose but we have to be unified and Paul Cellucci is correct about the turnout in 2004. I think this time though we are going to have a massive turnout if these primaries are any indication.

John Ibbitson

I think one of the greatest questions that Canadians have on their minds is the sudden emergence of NAFTA in the debate. Since 2001 it has to be said that the Canada-U.S. border despite the best efforts of many people is thickening. I think the reason for that is the Department of

Homeland Security has taken over control in Washington and is implementing new and restrictive measures which the State Department and the White House either aren't able or aren't willing to overturn. And now we have the Democrats threatening, or promising to reopen NAFTA if they can't get new provisions. So let me start with you Ambassador Blanchard, just how concerned should Canadians be about this promise by both Mr. Obama and Ms. Clinton to renegotiate the most vital trade agreement we have ever signed?

James Blanchard

Given the incredible press coverage of their statements, I need to first give you a disclaimer. I don't speak for Hilary Clinton or Barack Obama or John McCain on trade policy. That's number one. Number two. I haven't seen anything that Hilary Clinton said or Barack Obama has said that is critical of trade with Canada. I think their concern is job loss or unfairness in dealing with countries that have low wage and labour standards and low environmental standards. I think that's become a template for how to deal with it and that's going to be true vis-à-vis China or anywhere else. So my sense is that the next president, whoever that is, will have to let our Congress and country digest all the trade agreements we have and figure out a way to improve the ones we have. I have not seen anything that would constitute a threat to trade with Canada. In the audience is Jim Peterson, a former cabinet member, and also Raymond Chrétien. They will remember that when I was ambassador I read the Red Book, which said the Liberal Party's platform was to renegotiate NAFTA. There were some side agreements that were made that improved it, but the whole thing wasn't opened up. I'm not saying that Obama and Hilary don't mean what they say. I think we have to take them at their word and I can understand why Canadians might be concerned. I just haven't seen anything that is hostile to Canada. As you pointed out, hostility to Canada has been shown by

the Department of Homeland Security taking the border and now requiring passports for people who have to go back and forth between Detroit and Windsor, making it harder for the movement of goods and services and people, and treating Canada like it was leaking like a sieve for terrorists which is not true. I'm worried about that and I know our leaders in Congress are worried about that and they have tried to delay legislation relating to that. The thickening of the borders is a real issue. I don't like the idea. I know this is a long-winded answer. I don't like the idea that it was easier for me to go back and forth to Canada when I was 16 or 18 or 25 years old and a lot harder now even if I wanted to wave around my fancy title. A lot harder. That's wrong and it needs to change.

Paul Cellucci

I would just point out that the thickening of the border has been done in response to a law passed by the Congress of the United States that requires Homeland Security to keep track of everyone who enters and leaves the United States. Basically, we have been exempting only two groups of people from that law—U.S. citizens and Canadian citizens. I believe that technology will be our friend as we hopefully keep pushing this off a little particularly the passport requirement. I haven't got my NEXUS card yet. People with a NEXUS card go right through while I am waiting in line to see the customs officers. I think we need more time. John McCain is a free trader. He understands that when you lower trade barriers you create more and better paying jobs for your people. You keep inflation in check, you keep interest rates low and a lot more goods become affordable for your citizens. He is a great free trader and he voted for NAFTA. He is not in the contest that Hilary Clinton and Barack Obama are having of who can take us out of NAFTA the quickest. I understand what Ambassador Blanchard has said, but there ought to be some concern here in Canada because they

are making some pretty strong statements and if they win and if there is a Democratic Congress to go along with them there's going to be a lot of people pushing them to follow through on what they said they would do. I think that would be very bad for Canada. When one-third of its GDP is based upon exports to the United States, it is not a good idea to see significant changes in the North American Free Trade Agreement. I find it ironic because if you look at polls of Canadians they much prefer Barack Obama or Hilary Clinton to John McCain. Yet I'm not so sure that's in the economic interest of Canada.

James Blanchard

You made a good counterpoint but I would also mention that when George W. Bush ran for president we thought he was the father's son. He talked about free trade and practically the first thing he did was slap a 27-per-cent tariff on lumber. He also slapped on steel tariffs. During Bill Clinton's time I can't remember any trade restrictions against Canada.

Paul Cellucci

Just a quick follow-up there. It is Nancy Pelosi who won't even let the Columbian Free Trade Agreement come up for a vote. The fact of the matter is pretty clear. The Republicans have committed determined free traders. The Democrats are under a lot of pressure from various constituencies and interest groups not to be free traders.

James Blanchard

There is no question that we are much more sensitive to people affected by the loss of manufacturing and there's no question that we have not done a good job of transitional assistance for workers who are laid off for whatever reason. That's one difference between the two parties.

John Ibbitson

A year ago when I first came to Washington one of my first stories was to cover an immigration bill, a bill which

absolutely should have passed. It was a bill that had both Republican and Democratic support. It had the full support of the White House, it had the support of the leadership of the Congress and yet it was defeated. And indeed, I have to say after one year of covering and writing on the United States Congress, that the House of Commons seems like a model of efficiency in comparison and that is saying something. This leads into the first question from the floor. Regardless of which candidate becomes the next president, what comments would you offer as the nationwide perception is that Washington is paralyzed by various factors such as powerful lobby groups. What can any president do to get the government working?

Paul Cellucci

I think it goes back to the point I made earlier. The approval rating of the Congress is now at 22 per cent. That was a good immigration bill co-sponsored by Senator John McCain. It should have passed. I think the American people are frustrated with the inability of the Congress of the United States to take on big issues and get some results. They may not agree with everything that is in a particular bill but they know that we have to get results to move forward. I think Senator McCain will come particularly well equipped to focus on some of these big problems and get those results. But he is going to need some help. There is no doubt he is going to need some help from the Congress of the United States and I think whoever the new president is he or she is going to have a honeymoon period, and is going to have some political capital that he or she will need to expend early on in his or her administration to take on some of these big issues and get some results on immigration and so on. The candidates in both parties who run on this anti-immigration platform don't do well. They make it such a big issue and end up not winning. The American people

understand we have got to secure our borders and we have got to fix the system, but they also know that a lot of these people who are in the country illegally do very important work and if we sent them all home tomorrow the economy of the United States would collapse. So the bill that the Congress failed to pass would have been a big step in bringing some order out of what is really now a little bit of chaos.

John Ibbitson

Is it true Mr. Blanchard that the lobbying firms in Washington have become so powerful now that it is impossible for any president or even any Congress to assert its will?

James Blanchard

I think that's a myth. Absolutely. I agree with Paul Cellucci on immigration. Both Barack Obama and Hilary Clinton and John McCain all supported the immigration reform bill. I believe there are as many or more Democrats supporting it as Republicans which is why you see the Democrats doing far better now with Hispanic voters for example. But on the gridlock there is an interesting question. Under the U.S. system of checks and balances and three branches of government and two houses of the legislative branch, our system was designed to thwart the consolidation of power. Gridlock is very common unless there is a huge overwhelming consensus. There really is. In other words our system was designed not to work. The parliamentary system on the other hand, whether it is in England or in Ottawa, is supposed to be efficient so you Canadians have no excuses about what is going on. I'm following your minority government with the Liberals opposing everything Harper would like and then voting for it. It has become really confusing. You have me baffled here. One final point. When the power was consolidated, which was the first six years of George Bush with a Republican Senate, Republican House,

Republican President, Republican Supreme Court, what did they do? They took America from the largest surplus in our history to the largest deficit. They have got us into a prolonged war. They cut taxes for the rich and waged a war and then told the people it didn't really matter. The value of the dollar has dropped to an all-time low and America's respect in the world including in Canada is at an all-time low. So much for an efficient system.

John Ibbitson

You would I'm sure agree with that assessment.

Paul Cellucci

The Democrats always talk about taxing the rich. What they forget about America is that we are a country where if you are a low-income person you want to become a middle-income person. If you a middle-income person, you want to become a high-income person. It's the American dream. When I was Governor of Massachusetts I put a tax cut on the ballot in 2000. Massachusetts was a pretty liberal state. In the 2000 election they voted for Al Gore over George Bush by 31 points. Yet the people of Massachusetts approved my tax cut, 59 per cent to 41 per cent. The American people understand that you have got to put money into the pockets of families, and you have got to make sure that businesses are competitive in the global economy. We have one of the highest tax rates on corporations in the world. John McCain wants to bring it back from 35 per cent to 25 per cent so we can be more competitive. We can compete with Western Europe, with China, with India, and other emerging giants. I think the Democrats misunderstand the American people. Most American people want to be very wealthy. They don't want to pay high taxes when they are. That's why the Republicans are winning.

James Blanchard

The reason why they supported Governor Cellucci's tax cut is because he was a wonderful governor.

Paul Celucci

Thank you.

James Blanchard

During the Clinton era we had 22 million new jobs, record home ownership, trade expansion, we got along well with Canada, we worked on peace in Northern Ireland, and peace in the Middle East and had a record budget surplus, so you don't have to cut taxes for the rich to have a successful accounting. But I would agree, all things equal, I love tax cuts. I just don't like to borrow the money from my children and grandchildren. That's all. That is my only concern.

Paul Cellucci

I would argue also that we have historically in the United States borrowed in time of war. We are at war on two fronts—in Afghanistan with great help from the Canadian Forces and in Iraq. A lot of people disagree with the war in Iraq and John McCain was one of the people who convinced the President to go with the surge and basically overrule the Rumsfeld policy and the surge has made a lot of progress. We still have a long way to go. There have always been cycles in America where the economy is strong and weakens but we always come back strong. We have a great standard of living, a great quality of life for our people, we are still the main defenders of freedom at home and abroad, we are a powerful force for good on this planet whether it is a Democratic president or a Republican president, whether we are running deficits or not. That's been the history of the United States. President George Bush is not held in high regard I know here in Canada and even in the United States now with a 28-per-cent approval rating, but I think history will look back on him and judge him much more favourably. History gave great marks to Harry Truman who was not very popular when he was in the Office of the President of the United States. They are going to look back and say

that George Bush kept Americans safe, there has not been another terrorist attack, he put in policies and programs that should keep our country safe in the decades to come. History will be the judge.

John Ibbitson

Day to day on the bus covering an American politician is very much like day to day on the bus covering Canadian politicians and elections. The two campaigns are in fact remarkably similar. There is however one meaningful difference and that's the role of God in politics, the role of faith-based issues in election campaigns. I would suggest that this campaign is different from previous campaigns. On the one hand the religious conservatives who have been in the past so dominant within the Republican Party seem fractured and confused. They didn't get from George Bush on abortion or on gay marriage or other issues many of the things that they wanted from him, even though he was by far their favourite president, and as I say they are not at all sure that they can have any confidence in the present candidate. But the real change is on the Democratic side, where Hilary Clinton and Barack Obama go out of their way in forum after forum and discussion after discussion to emphasize the role of God in their life, the depths of their faith and how important religion is to them. It is almost as though they are trying to woo away confused, conservative, religious voters and bring them back into the Democratic camp. So I would like to ask the two of you, we will start with you Governor Blanchard, what role do you see religion as a political force continuing to play in American life and how will it shape politics?

James Blanchard

I think you're right. There has been a real resurgence of religion. I have run for office 10 times and no one has ever asked me my favourite scripture or passage in the New Testament or Old Testament or really ever asked me my

religion. Canada is more of a secular country. United States is a religious country. I used to joke and say in the U.S. there is a church on every corner. In Canada it is a coffee shop or a bank. So there is a dramatic difference in the two cultures as is the amount of money put into politics, and religion and money really don't mix very well. I believe the reason George Bush was re-elected in 2004 was support from faith-based voters, both evangelical Protestants and right-to-life hard-core Catholics. When I would run into a Bush supporter, religion or faith somehow crept into the conversation, so the Democrats are worried about that. I think both Senator Clinton and Senator Obama try to make sure that they don't leave themselves open to the charge that they aren't spiritually committed or at least they want people to know they respect religion. In our country, as you know, even though we have the First Amendment separating church and state, it seems to get more mixed together than in Canada where you don't have such a provision. It is really unusual. I think the way religion has become intertwined with politics is actually an ominous sign. I don't think it is a good trend and I think our Democrats are trying to make sure people respect religion and its role but it is not a winning issue for Democrats. We're too multi-faceted in our support groups for that to be a winning edge, but it is critical for Republicans. I'm going to let Governor Cellucci speak about it but I will just note the following. In the Iowa caucuses, the first contest, a Baptist minister, Mike Huckabee, who is a very attractive candidate I might add, but a Baptist minister no less, won the Iowa caucuses, even though Mitt Romney spent 20 times more money and had a huge business record. That actually gave an opening to McCain to go to New Hampshire and then restart a failed campaign to become the nominee. It is really interesting that in the Republican caucus in Iowa or the Republican primaries the most religious and the most

evangelical candidate wins. That tells you the power and what's changed America.

Paul Cellucci

If that were true, then Mike Huckabee would be the nominee, not John McCain. He won Iowa.

James Blanchard

But he paved the way.

Paul Cellucci

The point I'm making is obviously Mitt Romney was hurt mostly by Huckabee, because Romney had raised a ton of money. Huckabee won Iowa and then won New Hampshire. Lights out, the game is over. He would have been the nominee.

John Ibbitson

But I guess the question is are you concerned about the power of the religious right within the Republican Party? Or do you welcome it?

Paul Cellucci

I just pointed out the fact that the most religious of the candidates did not get very far, so to say that there is some sort of undue influence of the religious right in the party has not been proved. John McCain, who many in the religious right are a little bit uncomfortable with, is the nominee so the point you are trying to make is not true. That is the only thing I am saying and the great thing about both of our countries is that you have the freedom in Canada and the United States to make religion an important part of your life or not. That is the great thing about living in these two countries. We have got to put things into some historical perspective as well. There is a difference between these two countries now, but it wasn't that long ago if I have read my history correctly that the Catholic Church had a lot of influence in the politics of Quebec. No one in the United States said, "Isn't that terri-

ble. Canada is such a religious country.” So put things into perspective, that’s all I am saying.

James Blanchard

Well I think it’s interesting that with George W. Bush, as distinguished from his father, there was a huge surge of evangelical voters in places like Ohio and Florida, which really helped him and I don’t think anybody denies that. One reason I like McCain is he doesn’t try to wear religion on his shirtsleeves. That’s one reason I like him as Republicans go but what did McCain do very early in this campaign? He went to Jerry Falwell’s church and spoke. Actions speak louder than words here. I thought that was rather bizarre for a guy who had been trashed by Falwell four years earlier.

Paul Cellucci

Jerry Falwell is a citizen. You can go and speak at his church. Barack Obama goes to his church in Chicago. There’s controversy about that.

James Blanchard

Yes, there is.

Paul Cellucci

When you are campaigning for the presidency of the United States, you reach out all across America. That’s the only way you can win.

John Ibbitson

Two questions have come from the floor, so let’s put them together, and they both concern Mr. McCain. The one concern is his age. He would be 72 if elected president. Do you think he is going to signal during the course of the campaign that he plans to be a one-term president in case anyone is afraid that they are going to have an 80 year-old president? And in light of various conservations we have had about Mr. McCain’s strengths and weaknesses, who do you think would be the best vice-president for him?

Paul Cellucci

I don't think he is going to limit himself to one term. We have term limits for the president of the United States, two terms, and I don't think you want to make yourself into a lame duck the day you come into office. I have been to many campaign events with Senator McCain and he always introduces his 96-year-old mother pointing out that he has got some pretty good genes. Anyone who has been through the intensity of a presidential campaign must know the energy it takes, the commitment and the determination it takes. John McCain not only has been through it, he has been thriving on it and he essentially has won the Republican nomination for president. It is going to be one of those contrasts particularly if it is Obama in terms of age, but it will be one factor. As far as Vice-President, Senator McCain says he is looking at about 20 people. He says 100 people think they are on the list, but it is really only about 20, and the advantage Senator McCain has is that the Democrats go first. Their convention is in August because of the Olympics. The Republican convention is not until the first weekend of September. It is very late so he will have a good sense of what the Democrats have done, and what the polling looks like. If he can pick a candidate who could deliver a state that ordinarily votes for the Democratic candidate that would be big. I have a few favourites. I love Condoleezza Rice, I love Senator Kay Bailey Hutchison from Texas, but it is way too early.

John Ibbitson

Do you think the Democrats will play up the issue of Senator McCain's age in the campaign?

James Blanchard

No. It probably will be a factor with some people but I don't think it is a problem. I don't see it as anything that should exclude him from thinking about serving eight years. It is really a matter of health as you pointed out. He

is very healthy and vigorous. If you think about what these people go through, that's incredible stamina for anybody. It is hard enough for a 40 or a 50-year-old but he is going to be 72. The big thing would be if Barack Obama is the nominee in his mid-forties and John McCain is 71 going on 72. It is going to be a huge generational kind of battle and the experience factor will probably be bigger as it is discussed. Change and a new generation, a new day for America in the world, versus an experienced person who will probably stay somewhat steady with what is going on. I don't think it will be an issue but you are going to have a woman or an African-American or a guy going on to 72. It is very unusual. If you add Mitt Romney in there as running mate, a Mormon, these are all firsts. There is no way to measure it, but I think he is healthy and he is doing well and that's that. As for running mate, as Governor Cellucci has pointed out, you want to pick someone who is qualified and someone who can maybe help you pick up a state you wouldn't get otherwise or secure a state that is really important. So he could look at the Governor of Florida Charlie Crist, he could look at the Governor of Minnesota Tim Pawlenty. If for some reason we don't nominate Barack Obama and his people feel that they weren't properly respected and given the proper support, then we could go with Condoleezza Rice. You never know. There are a lot of things that can happen.

Paul Cellucci

I think it is an advantage that McCain goes last.

James Blanchard

The key is to pick someone who is qualified, who can help you win. Sometimes even when people are not very friendly, they join forces.

John Ibbitson

Just on the question of how remarkable things are becoming in American politics. The portrait of Madeleine Albright, the former Secretary of State, was unveiled ear-

lier this week, and the Secretary of State Condoleezza Rice made some very gracious remarks actually. She pointed out that it has been 12 years since a white man was Secretary of State in the United States, which is quite remarkable when you think about it. Because of the particular concerns of this audience I'd like to circle back to the trade question. More than three years ago now, the Presidents of the United States and Mexico and the Prime Minister of Canada agreed to launch the Security and Prosperity Partnership (SPP) as both of you know well. Its most important provision was to attempt to harmonize the regulatory regimes especially of Canada and the United States, so that products that were certified as safe and responsible and reliable in one country could cross the border without having to go through an entirely new regulatory process; one effort to make significant improvements in thinning that border. The three continue to insist that the SPP is alive but everybody knows it's dead. Everyone in Mexico City, everyone in Washington, and everyone in Ottawa you talk to, provided you are talking off the record, will tell you that it has been relegated to the bureaucrats who are told to not work too hard or file for overtime. In the light of the death of SPP or at least its moribund nature what would you specifically recommend to the next president as two or three initiatives that Canada could take to get the dialogue going again about improving trade across the border?

Paul Cellucci

I'm not convinced the Security and Prosperity Partnership is dead. It could be in a period of not much happening with the U.S. elections taking place. We have already had some success. The minimal risk rule, which was put in place for beef, has been technically part of that process. Now if we find one mad cow in Alberta we don't shut the border to Canadian beef and hurt Canadian farmers and people who work in American slaughterhouses. I

think it is something that should go forward. I think business communities on both sides of the border need to let their Prime Minister and their President know that this is something that we should move forward with. Regarding NAFTA, the North American Free Trade Agreement, we should continue the economic integration of North America so that we can compete better against Western Europe and China and India. I think it is going to be a lot easier for Senator McCain, given his record and his positions and his strong support as a free trader, to move in that direction. I think it might be a little harder for a Democratic candidate who's made a lot of statements and will most likely have a Democratic caucus. I think this is a big point of difference and I think there is a little danger for Canada. I think we have to be vigilant but I personally think the continued economic integration of the North American economy is good for all three countries but particularly for Canada and the United States.

John Ibbitson

What is your take on the health of the SPP?

James Blanchard

On the SPP I'm not familiar with all the details. I have gone to some meetings where it has been discussed. I agree with Governor Cellucci. I don't think it's dead. I think they made a mistake in having such a huge laundry list of goals or specific desires that watered down the importance of the relationship. I think they need to focus on two or three things and really work at them and I also think that relations between the U.S. and Canada should not be put on hold in order to get a tripartite agreement with Mexico because the issues are different. There is a lot of commonality but the issues are different. I think all three possible presidents will be good for Canada. By the way I don't think there's been a better president, better friend in the White House for Canada, since FDR than Bill Clinton and I would expect Hilary will end up in that same

category. All I can tell you is she has spent more time in Canada than I think Obama or McCain or a lot of other people. She is no stranger. I spent a lot of time in Canada with her so I think what you want is someone who is knowledgeable, has a sense of the history of the two countries, and a sense of involvement. Let's take one example—climate change. The fact is both of our governments are going to have to do something about climate change and the intertwining of energy and the environment. It's really critical for Canada and the U.S. We are going to have to have a harmonized plan or it is not going to work. One good thing about McCain is that he is committed to that, as are the others. As I said, as Republicans go I think he is great. Anyway the point is we have got to have a harmonized comprehensive agreement on energy and the environment. You cannot treat them separately between the U.S. and Canada. That's true with smoothing the border. It is true on immigration. Obviously it would be true on harmonizing manufacturing regulations.

John Ibbitson

Let's go back if we can just to the question of the horse race. That is always the most fun. We have a question from the floor. What is the solution to the Michigan and Florida problem regarding the seating of their delegates? You have no idea how hard it is to write this in a single paragraph day after day, but in essence Florida and Michigan broke the rules by holding their primaries too early. The Democratic National Committee stripped them of their delegates. Hilary Clinton left her name on the ballot in Michigan; nobody else did. Guess what? She won Michigan. Nobody campaigned in Florida so she won Florida. Nothing can happen unless both sides agree. It is too late to do it over, there is not going to be another primary, so how do you guys get yourselves out of this?

James Blanchard

Well a first class mess is what it is. I think both Florida and Michigan will be seated. If Barack Obama had supported a redo of the primaries we would have had them. He's worried he is going to lose another big state whether it's Michigan or Florida. The thing to keep in mind, and Governor Cellucci referred to it earlier, is that Barack Obama has only won one major state, his own. He's lost all the large states that constitute the electoral vote that you need. As a matter of fact, if the Democratic Party has a unit rule like the Republicans, winner take all primaries, Hilary would have won the nomination on March 4. So the question is now, because the two states moved their primaries up because they wanted to be relevant and not let Iowa and New Hampshire kind of dictate things because those are not reliably Democratic states, we are in a heck of a mess. The Hilary Clinton campaign in Michigan said it would play by whatever rules Michigan set up. So that was why we left her name on the ballot, and that's why some of the other candidates did too. But the Democratic National Committee in my opinion has lost its way. It's obsessed with its rules. We are not using common sense, we are not thinking about winning the White House in the fall, they're flirting with a McCain victory, and they're jeopardizing goodwill in Michigan and Florida. The Democratic National Committee should step in and figure out a way to resolve this. They haven't. They have said, "Well let the two campaigns resolve it." The two campaigns are not going to resolve it because one or the other is going to think it gives someone an advantage. That's like passing the buck. They are going to have to step in on it and not just do it at the end of the process when Michigan and Florida feel further aggrieved. In the last 60 years only one Democrat has been elected president without Michigan. Only once in 60 years. That was Jimmy Carter who ran against Gerald Ford of Michigan. It's a heck of a mess. I believe we'll be seated but I see the

Democratic National Committee doing what Mo Udall once said about Democrats: When the going gets tough we Democrats form a firing squad in a circle.

John Ibbitson

And you're just laughing at this aren't you?

Paul Cellucci

It is another danger for the Democrats. It is how do you dis-motivate people. This is one of the ways you do it. Over a million Democrats voted in the Florida primary. It is not their fault that their party leaders moved the date in violation of the Democratic Party rules. So you are basically going to disenfranchise those people. That would not be good for the Democrats. Just another note on the horse race. Until about probably a month ago I was convinced as a Republican that we would be better off running against Hilary Clinton, because Hilary tends to be a polarizing figure with baggage, whatever you want to call it. I have never understood why some people just really dislike her. I have worked with her. I think she's bright, competent, capable. I don't agree with a lot of her policy positions but she is polarizing. So I thought she was the one that would be the best for the Republicans but in the last three or four weeks I have been looking at the polling data. I think Barack Obama's inexperience is starting to come to the forefront. States like Florida, Ohio, Pennsylvania, Michigan are really pretty critical for a Democrat to win the White House. She's running well ahead of Barack Obama versus John McCain. This is going to be very interesting. I'm now convinced the Republicans would have a better shot against Obama so we'll see.

John Ibbitson

I have a plethora of questions here to ask and several of my own but I'm afraid a plane awaits so I will close by thanking both of you for what was extremely informative indeed. I could get a couple of news stories out of this if I

put my mind to it. I wish you both all the success for your respective campaigns in the months to come.

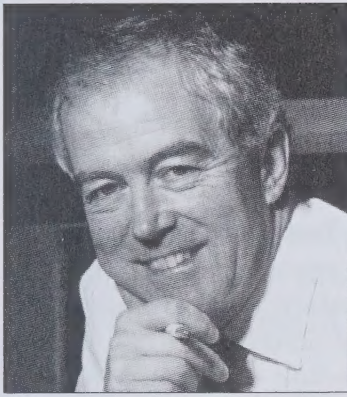
The appreciation of the meeting was expressed by Mark Feigenbaum, Chairman, Republicans Abroad, Canada, and Adrienne Jones, Chair, Democrats Abroad Canada.



Sir David Tweedie, Chairman, International Accounting Standards Board, and Catherine S. Swift, President and CEO, Canadian Federation of Independent Business, and President, The Empire Club of Canada.



Lord Peter Levene, Chairman, Lloyd's of London, Catherine S. Swift, President and CEO, Canadian Federation of Independent Business, and President, The Empire Club of Canada, George L. Cooke, President and CEO, The Dominion of Canada General Insurance Company, and Past President, The Empire Club of Canada, and Nicholas Armour, Consul-General, British Consulate-General.



April 25, 2008

Sir David Tweedie

Chair, International Accounting Standards Board

THE IMPORTANCE OF INTERNATIONAL ACCOUNTING STANDARDS

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

John Koopman, Partner, SpencerStuart, and Past President, The Empire Club of Canada; Martha Coates, Grade 11 Honour Roll Student, North Toronto Collegiate Institute; Reverend Father Anthony Jemmott, Rector, St. George's Anglican Church, Oshawa; Doug Hyndman, MBA, Chair, Accounting Standards Oversight Council; Doug Baker, Vice-Chair, The Canadian Institute of Chartered Accountants; Kamal Hassan, CEO, Skymeter Corp., and Director, The Empire Club of Canada; Ronald Thompson, Commissioner, Environment and Sustainable Development, Office of the Auditor General of Canada; and Alain Benedetti, Chair, The Canadian Institute of Chartered Accountants.

Introduction by Catherine Swift

A key part of the fallout from the Enron, WorldCom, etc. fiascos of a few years ago was a sea change in the world of accounting and how it affects us all. As any of you in business knows, auditing has

become a lot more intense and costly than ever, and it doesn't look like that is going to change any time soon. Another important recent trend is the need to harmonize accounting standards around the world as economies and businesses become more global in scope.

As a result of these important changes, we are very fortunate today to have as our speaker the Chairman of the International Accounting Standards Board, Sir David Tweedie. Sir David was educated at the University of Edinburgh, receiving a BCom and a PhD. He qualified as a Chartered Accountant in 1972 and was a Lecturer in Accounting at the University of Edinburgh from 1973 to 1978. He then served as Technical Director at the Institute of Chartered Accountants of Scotland from 1978 to 1981 and subsequently worked with KMG Thomson McLintock, and KPMG Peat Marwick McLintock. In 1990 he was appointed the first Chairman of the UK Accounting Standards Board and the Chairman of the Urgent Issues Talk Force.

He has received a number of honorary degrees and professional awards in his field, including the Institute of Chartered Accountants in England and Wales Founding Societies Award and the Chartered Institute of Management Accounting's CIMA Award. He has been a visiting professor at the University of Lancaster International Centre for Research in Accounting, the University of Bristol and the University of Edinburgh. He was knighted in 1994 for his services to the accounting profession.

Sir David has also been said to be someone who would be prepared to "cross a motorway for a fight" and who possesses a robust manner. Addressing the U.S. Senate banking committee some years ago, he opened his remarks with the phrase "It's good to be back in the colonies." I have personally been very much looking forward to hearing Sir David speak since I am an economist, and economists are known to be people who enjoy working with numbers, but who do not have the charisma to be accountants.

Please join me in welcoming Sir David Tweedie.

David Tweedie

It is a great honour to be invited by the Empire Club of Canada to speak today. In preparing for this event, I reviewed the Empire Club's Web site and noted the list of past speakers. You have had royalty, past presidents, prime ministers, and military heroes. I did not want to read too much into the invitation, but I assume that my

presence here means that accounting standard-setters have been conferred new, exalted status.

Or maybe the invitation to an accounting standard-setter is a reflection of the times. Somehow, the current credit crisis has brought the normally arcane area of accounting standards to the front pages of the financial press. Some have pointed their finger at accounting standards as the cause of the crisis. Not surprisingly, I tend to disagree.

Today, I would like to tell you why I disagree, what the International Accounting Standards Board (IASB) is doing to address the issues raised as part of the credit crisis, and how International Financial Reporting Standards (IFRSs) can serve as one of the foundations of a sound financial reporting infrastructure for the world's capital markets.

Addressing the Credit Crisis

Time is too short to provide a thorough analysis of the current credit crisis, but it is evident that at the heart of the crisis were bad lending practices. Bad lending was then compounded by the absence of prices in the secondary markets for some structured credit products and concerns about the location and size of potential losses. This in turn led to funding difficulties caused by the reluctance to extend credit to a number of financial institutions thought to hold low-quality liquid assets. Financial reporting enters the scene by way of its requirements to value these assets and to alert the markets to risks associated with their existence.

It is undoubtedly difficult to value complex, illiquid, structured credit securities. Many of the loans were in fact shown at cost in the books of financial institutions. When recoverability of a loan is doubtful the loan has to be marked down, even under historic cost accounting, to the present value of the cash flows expected from the loan; that value would be fair value. No entity is ever

allowed to disclose assets valued at more than their recoverable amount in its financial statements.

My personal view is that showing the changes in values of these securities, even if imperfect, provides much needed transparency and enables markets to adjust in a necessary, even if painful, manner. I am not alone in this assessment. The CFA Institute, representing financial analysts throughout the world, asked its members whether fair value requirements for financial institutions improve transparency and contribute to investor understanding of the risk profiles of these institutions. Seventy-nine per cent said yes. While a slight majority believed that fair value is aggravating the credit crisis, 74 per cent surveyed believed that fair value accounting improved market integrity.

None of this is to say that the existing IFRSs are perfect, and clearly the IASB is willing to examine how to improve its standards in light of developments. In endorsing a plan drafted under the auspices of the Financial Stability Forum, the G-7 Finance Ministers and Central Banks stated, "The International Accounting Standards Board (IASB) and other relevant standard setters should initiate urgent action to improve the accounting and disclosure standards for off-balance sheet entities and enhance its guidance on fair value accounting, particularly on valuing financial instruments in periods of stress."

We at the IASB already have projects underway on financial instruments, fair value measurement, consolidations and derecognition. For our consolidations and derecognition projects, ones that directly address off-balance sheet issues, the IASB is committed to move the projects forward expeditiously. The IASB will also put together an advisory group to help us address the issue of valuing financial instruments in illiquid markets.

The credit crisis also has a broader lesson for the IASB as an international standard-setter. In a world increasingly dependent on international capital flows, accounting has

an important role to play. This afternoon, I would like to share my vision of how the global adoption of IFRSs can play a positive role in the effective functioning of capital markets.

The Possibility of a Global Standard

The real impetus towards global accounting standards began some 10 years ago. In the midst of the Asian financial crisis, several companies whose financial statements seemed to indicate that they were secure, suddenly went bankrupt, casting great doubt on the veracity of the statements and in particular the national accounting standards in use. While it is important not to overstate the role of accounting standards and practices in precipitating the Asian financial crisis, it is clear that confidence in financial reporting practices in that region disappeared. As a consequence, financing, much of it short term in nature and not subject to any capital controls, was withdrawn. Interest rates rose, investment ground to a halt, and an economic slowdown followed. In the aftermath of the crisis, it was unlikely that confidence in the existing or any revised national standards could be restored rapidly, indeed, if ever. The obvious choice was to move to an internationally accepted set of standards.

At that time, two sets of standards were used on an international basis—the (then) International Accounting Standards promulgated by the part-time International Accounting Standards Committee (IASC) and U.S. generally accepted accounting principles (U.S. GAAP). A three-year debate began that included the U.S. Securities and Exchange Commission (SEC) and the European Commission. The result was the creation of the International Accounting Standards Board, largely modelled on the U.S. Financial Accounting Standards Board (FASB).

The IASB began its work in April 2001. The mission given to us was and remains to create a single set of high-

quality and principles-based global financial reporting standards that are used throughout the world's capital markets. Whether you are in Toronto, Tokyo, Tampa, or Turin, the accounting should provide the same answer for the same economic transaction.

Admittedly, our set objective was bold, and it is easy to lose sight of the fact that before 2001, very few countries and companies throughout the world were using International Accounting Standards. A significant body of opinion existed, not restricted to the United States, that U.S. GAAP would eventually become the global norm for companies and investors operating in international capital markets. In many ways this view was not misplaced. Many of us who worked for one of the international accounting firms, many years ago were able to point to "global" on a map. It was a large place consisting of 50 states with sea on both sides. You lost partnership points if you suggested otherwise—but times have changed!

In little more than seven years, more than 100 countries throughout the world, including the 27 European Union member states, now require or permit the use of International Financial Reporting Standards (IFRSs). In 2007, Canada, Israel, Korea and Japan all announced their planned move towards IFRSs. The major emerging and transition economies of the world—Brazil, China, India, and Russia—are signing up to IFRSs in an effort to attract the investment necessary to finance their development.

There is clear momentum towards accepting IFRSs as a common financial reporting language throughout the world. Today, multinational companies are benefiting from reduced compliance costs associated with the removal of the need for the consolidation of different national accounts into a single statement to meet their home country's requirements. Investors are able to make comparisons of companies operating in different jurisdictions more easily. Regulatory authorities are now more able to develop more consistent approaches to supervi-

sion across the world.

You may have noticed that I did not mention the United States yet, but convergence between U.S. GAAP and IFRSs has been steady and there is reason to believe that IFRSs will be adopted in the United States by U.S. companies in the near future. In November 2007, the U.S. SEC agreed to eliminate the reconciliation requirement, with immediate effect, for those non-U.S. companies using IFRSs as prepared by the IASB. At the same time, the SEC is giving serious consideration to a proposal to permit U.S. companies to use IFRSs.

The Memorandum of Understanding and the IASB-FASB Work Program

The sea change in attitude in the United States towards IFRSs was made possible by the release of the SEC roadmap regarding the removal of the reconciliation requirement and the Memorandum of Understanding (MoU) agreed in February 2006 between the FASB and the IASB. The SEC's roadmap set out a process by which the SEC would eliminate the reconciliation requirement, provided the FASB and the IASB established a robust process of convergence that would continue following the reconciliation's elimination.

From the standard-setting standpoint, the incentive of the reconciliation's removal and the acceptance of the MoU was a revelation. The IASB and the FASB would no longer need to concentrate on a possibly endless series of changes to get the reconciliation removed. In consultation with the SEC and the European Commission, the IASB and the FASB agreed that trying to eliminate existing differences between two standards that are in need of significant improvement is not the best use of the FASB's and the IASB's resources. Instead a new common standard should be developed that improves the financial information reported to investors.

Under this arrangement, convergence work has run on two tracks. First, the goal by 2008 is to reach a conclusion about whether existing major differences in a few focused areas should be eliminated through one or more short-term standard-setting projects and, if so, complete or substantially complete work in those areas. For the IASB, this would mean considering changes in six targeted areas, including borrowing costs, joint ventures, government grants, segment reporting, impairment, and income tax. The FASB would also need to consider changes to six of their standards. At the same time, convergence would not need to exact replication of standards, but agreement on major principles. For example, in addressing borrowing costs the IASB removed the option to expense interest costs on loans used to finance the construction of an asset. Accordingly, both U.S. GAAP and IFRSs now require capitalization of such interest. The means by which this capitalization takes place is similar but not identical. The U.S. and international standards are now broadly the same. Word for word conversions would simply take too long.

I am happy to report that the great part of the short-term convergence is now complete.

Second, and more substantially, the MoU established the target of 2008 to have made significant progress on a number of areas identified by both boards where current accounting practices of U.S. GAAP and IFRSs are considered outdated. We identified 11 areas originally. We have completed virtually identical business combinations standards already, eliminating an area that produced significant difference in financial results between IFRSs and U.S. GAAP. We have also decided not to tackle intangible assets as part of the MoU.

This leaves us nine other projects to complete with the FASB. At the end of the process, the intention is to have

identical standards. This should make any U.S. transition to IFRSs easier.

My best estimate is that these MoU projects will be completed in 2011. These remaining projects include four of the projects that I mentioned earlier in the context of the credit crisis:

- Consolidations;
- Fair value measurement—a project aimed at how one calculates fair value, not when one does;
- Financial instruments; and
- Derecognition.

The two boards are now addressing a number of the more challenging conceptual issues in financial reporting. For example, our financial statement presentation is examining how financial statements are laid out and how they fit together.

We are examining the issues of revenue recognition, the differences between liability and equity and two other projects that I think are critically important—leasing and pensions.

I pick on pensions and leasing because these are two standards where existing accounting falls a long way short. Frankly, accounting is not rocket science. It is often said of the professions that they try to surround their activities with mystique to confuse the layman. Accounting standards can do more than that. They frequently baffle many accountants so much that few audit partners can complete an audit without relying on the advice of experts within the firm. My usual comment when confronted by many supporters of complicated accounting policies is: “Explain that to your granny.”

Let’s apply the “granny” test to the existing pensions standard. Suppose a pension fund is in equilibrium, having liabilities of \$40 million matched by assets of a similar amount. If the value of the assets was to fall to \$30 million and liabilities remained the same, the fund would have a deficit of \$10 million. Under what is the most commonly

used policy option (IAS 19, derived from the former U.S. standard only recently changed), the deficit is reduced:

- a) by removing market “noise” by a reduction of 10 per cent of whatever is the higher of assets or liabilities—in this case liabilities, leading to a reduction of \$4 million.
- b) by “spreading” the remaining deficit of \$6 million (\$10 million minus the \$4 million) over the expected working lives of the employees—say 10 years for this example.

The result is that the deficit shown in the financial statements becomes \$600,000. Explain that to your granny.

Furthermore, not only is the change in the value of a pension fund not reflected in the financial statements correctly but the annual cost of pensions charged against annual income is offset by the estimated long-term return on the assets in the fund. Some of these estimated returns have been heroic! In the United States from 2000–2004, the income statements of the top-500 companies recorded these estimated returns at \$498 billion. The actual return amounted to \$197 billion. In other words, \$301 billion of phoney profits flowed through the profit and loss accounts of the top-500 American companies over a period of five years.

Let's turn to leasing. One of my great ambitions before I die is to fly in an aircraft that is on an airline's balance sheet. Why does this not occur? Because most aircraft are leased and the standards divide leasing into two types: operating leases and capital/finance leases in which (broadly speaking) the asset is owned for almost its entire life. For operating leases the only amount shown in the financial statements is the annual lease payments, which are charged to the profit and loss account. For finance leases, the present value of the future payments under the lease is shown as a liability and on the other side of the balance sheet the right to the asset. Why aren't air-

craft shown? This is because aircraft are not normally leased for their entire life. They are usually leased for only seven years; therefore, they fall into the operating lease category. But ask the airline the following questions:

Q: Can the airline escape from the lease?

A: No, it is committed to annual payments over the next seven years.

Q: Can the airline measure the amounts it has to pay over seven years?

A: Yes, it is written into the lease contract.

The definition of a liability is met. The airline has an obligation from which it cannot escape and which can be measured reliably. It should, therefore, show as a liability the present value of the payments that have to be made and on the other side the rights to the aircraft for the same period. These would not be trivial figures. The leasing volume for the year of 2006 amounted to \$634 billion—and this was for only one year. Most of it was off the balance sheet.

A Principles-Based Approach Going Forward

Our plan is to attack all of the nine MoU remaining areas in a manner that would make our grannies proud, or at least prouder. I have picked on two of my favourite cases where accounting is needlessly complex or fails to reflect the economic facts, but there are certainly other examples. The question is where we go in the future.

- Can standards be written differently?
- Can we deal with the main issues related to a particular type of transaction (known as an 80-per-cent standard) leaving the other problems to be dealt with by reference to the standard's main principles and the use of professional judgment?

The answer lies partly in developing standards that make intuitive sense. As we have learned, we simply can-

not account and anticipate for all developments in the marketplace.

The core principles would have to be clearly stated. Other sub-principles should be related to these in a tree-like structure. Inconsistencies with other standards should be dealt with. Principles should be tied to a sound conceptual framework. Any departure would have to be explained. It may be necessary to depart from the framework if emerging transactions indicate that the framework is out of date. Any exception to the framework, however, should provide a basis for elimination of the exception by later changes to the framework itself.

The use of principles should eliminate the need for anti-abuse provisions. It is harder to defeat a well-crafted principle than a specific rule which financial engineers can by-pass. A principle followed by an example can defeat the "tell me where it says I can't do this" mentality. If the example is a rule, then the financial engineers can soon structure a way around it. For example, if the rule is that, if A, B and C happens, the answer is X, the experts would restructure the transaction so that it involved events B, C and D and would then claim that the transaction was not covered by the standard.

A principles-based standard relies on judgments. Disclosure of the choices made and the rationale for these choices would be essential. If in doubt about how to deal with a particular issue, preparers and auditors should relate back to the core principles. The basis for conclusions (the rationale underlying a particular standard and published with it) should also include, in particular, the question of whether there is only a single view to tackle the economics of the situation. Often there are competing views. Is one deemed to be more relevant? If so, reasons for choosing that particular view should be explained in the basis for conclusions and reasons for rejecting the others clearly outlined.

All application guidance and examples to understand the principles have to be questioned. Would anything be missed if they were deleted? If guidance is necessary, is the principle sufficiently clearly stated? Does the standard include bright lines and arbitrary limits? Why are these necessary? Does the transition to the new standard follow the normal pattern? If not, why is a change proposed?

Of course, the viability of a principles-based system depends largely on its implementation by preparers and auditors. Ultimately, the profession will get the standards it deserves. If it does not act with integrity, if in court it attacks reasonable judgments, which have turned out to be, with hindsight, incorrect, if it keeps asking for voluminous interpretations or additional guidance, if raw economic facts are unpalatable, if the regulators insist on particular ways of dealing with a situation, a rules-based system is inevitable.

The Future for IFRSs

As I mentioned earlier, I am delighted that Canada has agreed to adopt IFRSs and has developed a sound approach in preparation. Of course, the adoption of IFRSs means change. My advice for you is to continue to use the Canadian standard-setter to gather and develop views representative of interested parties in Canada. This necessarily means providing the standard-setter with the necessary resources so that they can participate in the IASB's projects at the earliest stages possible. The Canadian standard-setter plays a key role in our deliberations and has major influence worldwide. We will listen, but when our process is over we hope that you will respect the outcome.

We are at an important stage of the development of IFRSs. We expect nearly 150 countries to adopt IFRSs by 2011. Our convergence program with the United States should be nearly complete, and we are waiting for the SEC

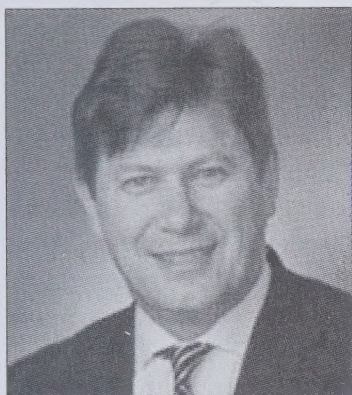
to determine whether U.S. companies will have the option to use IFRSs or whether a firm deadline for U.S. adoption will be set.

In the intervening period and consistently with our MoU work program, we will be issuing a number of standards in key areas over the coming years. It is likely that the result will be accounting that is more “tell it as it is.” The world of “tell it as it is” accounting will naturally lead to more volatility in financial results, but the one thing that we know about the world’s markets is that they are volatile. With the development of our new financial statement presentation standard and the use of management discussion and analysis, we hope to provide companies the tools to explain their performance in a way that reflects the economics.

We are also conscious that this is a time of rapid change for those countries adopting IFRSs. We will provide those adopting IFRSs at least one year between the publication of a standard and its implementation and will review key elements of standards two years after their implementation.

I strongly believe that we have a once-in-a-lifetime opportunity to create a set of accounting standards appropriate for the world’s market that we can be proud of. Despite the progress made to date, the IASB cannot rest on its laurels. The current financial crisis demonstrates that the stakes are too high. The IASB recognizes the relevance of its work to the world’s economy and will work expeditiously to achieve its ultimate objective—a single set of high-quality principles-based standards used in the world’s capital markets.

The appreciation of the meeting was expressed by Kamal Hassan, CEO, Skymeter Corp., and Director, The Empire Club of Canada.



April 30, 2008

Dene L. Rogers

President and CEO, Sears Canada Inc.

FROM MASS MARKETING TO THE CUSTOMER OR AN INDIVIDUAL

Chairman: **Jo-Ann McArthur**

Second Vice-President and President-Elect,
The Empire Club of Canada

Head Table Guests

Verity Craig, Principal, Hays Executive, and Director, The Empire Club of Canada; Keira Herry, Grade 11 Student, Westview Centennial Secondary School; Reverend Byron Gilmore, Rector, Christ Anglican Church, Brampton; Tim Flemming, Senior Vice-President, Sears Canada Inc.; Rebecca Rogers, Spouse of Dene L. Rogers; Rajiv Mathur, Partner and GTA Consumer Business Practice Leader, Deloitte & Touche LLP; Lou Natale, Sales Director, RedKnee Inc., and Director, The Empire Club of Canada; Diane J. Brisebois, President and CEO, Retail Council of Canada; and Brent Houlden, Partner and National Consumer Business Practice Leader, Deloitte & Touche LLP.

Introduction by Jo-Ann McArthur

Wikipedia states that there is a Sears location within a 10-minute drive of 93 per cent of Canadians. With annual revenues of \$6 billion, Sears with its 37,000 associates has long been a force in Canada—both economically and culturally.

From Simpson-Sears to Sears to a relaunched Eatons to Sears Home Stores it had great brands like Craftsmen and Kenmore. The Sears catalog was a precursor to today's Internet retailing. As a kid in my household it was an annual sport to race my two brothers to be first to mark up the Christmas Wish Book for Santa.

Sears' corporate mission is actually one of those rare mission statements that is focused, actionable and easy to remember—build customer relationships, make more money, and improve every day!

We hear a lot about mass advertising dying; what about mass merchandising?

Well, it certainly has its challenges—with a strong Canadian dollar, consumer belt tightening, big box competition like Best Buy with bigger selection and lower prices, fashion stores like Zara with up-to-the-minute European fashion at disposable prices for a new generation of consumers who want it now. In the face of this, Mr. Rogers and Sears Canada managed to record an increase in profit for its most recent quarter. Instead of battling increased cross-border shopping they are capitalizing on it with a “pop up” boutique in Windsor. I think this is a man who understands brands and has some insight to share.

Dene Rogers was appointed President and CEO of Sears Canada in April 2006.

Prior to Sears Canada, Dene was Executive Vice-President and General Manager, Kmart, where he oversaw the operations of approximately 1,500 stores and \$18 billion of revenues.

Prior to joining Kmart, he was a Senior Vice-President at Starwood Hotels and Resorts where he helped create the W Hotels brand and rebuild the Westin Hotels brand.

Before Starwood, Dene was with GE. He has also worked in Japan, Europe and China. He is a graduate of Yale University and started out life as a petroleum engineer.

Dene hails from Kalgoorlie, Western Australia. He is married and has three children. His interests include history, crew and theatre.

Please join me in welcoming Dene Rogers.

Dene Rogers

Mr. Rogers used a number of slides in his speech.

I have an idea of individualism and the long tail. This is, I hope, a not-too-complicated way of expressing it. The idea is that you plot all of your stock keeping units (skus) or products on this axis. This other axis shows the

demand for those products. Obviously there would be some where the demand is huge and then as you go out you would find that there were others that are much less in demand. Typically as consumer businesses we have tended to operate in the large demand area, especially at a department store like Sears, and we've sort of ignored the long demand tail. I think the wave of diversity that's happening today is that more and more people will be interested in this tail, known as the long tail, which is more of a customized product offering. We are going to see something we have been talking about for a while which is mass-to-mass customization.

The other point that I'd make is that individualism is probably not strongly related to traditional and modern forms of diversity. This means that someone who's an Asian-Canadian has the same choices and preference as someone who's a Swedish-Canadian. In other words the idea of whom the person is, unrelated to their racial, religious and other background, is probably becoming more predominant than in times gone by.

An example is on-line music popularity and here is that mass-market area in the darker red and then the long tail. I won't disclose the identities of these companies but this is a really large discount store. You can go on-line and get roughly 25,000 songs. It sounds like a lot. It is more than you can listen to over a long weekend and yet you can go on to another on-line store and they'll have almost a million. I think that when you draw this chart for everybody, for all of the products that they buy, sooner or later all of us aren't buying from the mass market. We want to buy from the tail. Maybe your family came from Sweden and you're really interested in Swedish music that they played during certain festivals. Maybe as a family tradition you play it once a year, maybe more than that. That might be a reason for being in this long tail. I think that as individuals sooner or later all of us fall into that long tail. We're not mass.

Another example would be hit albums. If you plot that from 1960 through to 2005 these are the gold, the platinum, the multi-platinum and the diamond. You can see the effect of technology, emerging in the 1980s. That's probably the boom-box era right there, with portable music and then obviously into the 2000s, a pretty rapid increase—probably iPods and other devices with larger memories.

You see in about 2002 the beginning of a precipitous drop. I would say that there is more than one thing behind that, but this idea of individualism and technology has enabled people to listen to music not in the form of albums but as a mix that suits them. People are customizing and mass products are no longer working.

Getting to a topic near and dear to most Australians' heart, this is beer. This is Anheuser-Busch in 1997. They had roughly 26 brands, which sounds like a lot of beer. You look at that number in 2007, 10 years later, and there are 80. I don't think this is related to traditional forms of diversity. I think this comes down to individualism. For business to go from 26 to 80 in 10 years is pretty significant and I think this is a measure of diversity in the form of individualism.

Talking about Sears and what might appear to be a fairly static form of product—major appliances such as refrigerators, dishwashers, all that sort of stuff—in a 15-year period we have had almost a nine-fold increase from 260 to over 2,500 skus. Look at what factors have caused that. They range from expanding national brands, the introduction of European and Asian brands and colour choices, so we have the cherry red washer dryer units, royal blue ones with all kinds of finishes. This is a nine-fold increase in 15 years. I should also mention that with any of these product diversifications there's always an underlying operational capability involved. In the case of major appliances there are things like quick response logistics which enable us to buy from a vendor as the cus-

tomers buy the product at the point of sale and to have that product shipped either direct to the customer or via our own facilities. In order to be able to cope with this many skus we need these operational facilitators for quick response.

Another example is the fun-in-the-sun catalogue. Back in 1998, 10 years ago, we had 28 brands. Today, 10 years later, we have 35, so there has been a 25-per-cent increase. And of those 35, a little bit more than one-third are new brands. That reflects customers wanting a greater choice from different brands than they had in times gone by.

We're testing new merchandise in order to be relevant. I hope you've seen some of these catalogues—more European-styled fashions—and we are beginning to test this brand, which is for a younger-minded customer. As a department store we have realized we need to be relevant to more people. These are some of the efforts that we are undertaking to be more relevant.

Some more examples are these products, which are made from sustainable cloth such as bamboo shirts and soya bean socks. These are expansions into new product types—more European-type fashions, women's intimates for a younger-minded customer.

So all of us have to be able to react to this idea of individualism if we are going to maintain relevant relationships as consumer businesses and those are some of our examples.

There's another effect that we need to look at and that is the idea of product absorption. This is a graph, which shows from 1920 through to the year 2000 the penetration in the number of households of various products. Refrigerators started around 1920 and it took about 30 years before almost all households owned one. But then you get to the more modern era. Microwave market penetration grew very rapidly. Home PCs, even more rapidly. A lot of these products are produced globally, large-scale

production is reached more quickly and costs reduce more rapidly. Think about LCD and plasma TVs. It is getting to the point where there aren't that many households without one of them. And then in technology, Moore's Law applies. The new product flow is increasing. So in addition to the need for more skus, I think there is another dimension. The absorption rate of new products is accelerated for these sorts of reasons. And even in fashions leading retailers like Zara are able to refresh their fashion floor far more frequently and it is one basis of their success.

Internationalism is a driver of diversity. Diversity is more comprehensive than just race, creed, all those sorts of definitions. Let's talk about who's meeting the needs of this ever-expanding sku universe and providing the ability for new products to be absorbed more quickly.

Let's start off with imports to Canada. These are the increases since 1998. China is up 600 per cent. Mexico is up 200 per cent, primarily because of NAFTA. Japan and the U.S. are up 49 per cent and 52 per cent respectively. Some of the less traditional suppliers show pretty significant increases. The volumes are not so great but I think it displays a couple of things. The economy is becoming more global. The number of partners that we have to deal with is ever-expanding and will continue to expand. This expansion of the international community is based on commonization. Countries are dedicated to the same values, the same ways of operating, the same legal system etc. The international organization of standardization in 1980 had 88 members. Today it has 158, almost twice that number.

Countries are realizing they need to join the global economy and they need to adopt common standards. The number of those standards is increasing dramatically and it is providing the basis for international trade. Look at the benefit of international trade on certain economies.

China's GDP is probably about four and a half times the size of Canada's and growing much more rapidly. If you were to look at China's GDP back in 1950, it was probably the size of the city of Chicago, so someone's benefiting from all of this international trade. They are making money out of it. Their economies are growing. It's leading to more education, more capabilities. Those countries have adopted standards, which enable them to trade with more countries.

Where is China in terms of its ultimate potential? Maybe we can use Japan as an example. I think most of us would agree that during the fifties, the sixties, the seventies and the eighties, Japan was a supplier to the Western world. If you wanted to make a car, you imported Japanese components. And then in the sixties and the seventies they started to produce their own product. Most people thought Japanese cars were junky. In the eighties they became a powerhouse and in the nineties became an international issue between North America and Japan as to the impact of the auto industry on North America.

I would argue China is still in the supplier phase of its development. In other words, China is providing basic products and components to North America. It is not at the point of being a retailer, a consumer retailer. It hasn't developed to that point. But I would argue that it will and when it does perhaps it will experience a trajectory similar to what Japan did from the 1970s. That's going to be a reflection of its population, 1.3 billion, relative to Canada's 33 million. It is going to be a reflection of its enhanced education system. All the support structures are changing in China to enable them to evolve their economy to the next level.

China has 1.4 trillion in currency reserves. Right now they have \$200 billion worth of assets but I'm sure that there is a lot more available and they have publicly

announced that they intend to invest in 50 companies or enterprises, large-scale enterprises, worldwide.

They are thinking about what to do with their cash. Do they invest it in U.S. treasuries at a pretty low interest rate, low risk, or do they start doing something more entrepreneurial? I would argue that increasingly they are going to be more entrepreneurial in their use of those reserves and in doing so their culture is going to change. The Chinese and Indians are watching the equivalent of American Idol, they are travelling to North America, a lot of them are being educated here. They want the same things. They have got the cash so I think this trend is only going to continue.

What are the implications of all this? We have to plan for constant consumer behavioural changes. We have to think about the customer as an individual. The idea of segments is probably losing ground to the idea of individualism and we need to treat people as individuals. To maintain a relevant relationship with individuals means having more products and services available and being able to operate in the long tail. We have to trade internationally and that has the implication of increased dependence and increasing the likelihood that some of our partner vendors are likely to become competitors.

To plan for constant consumer behavioural changes, we need to stay on top of what they are. It is very, very normal when we talk about customers to want to segment, to be able to simplify and we typically start to segment by gender, age, religion, racial background, the place where someone's born etc. I would argue that that's no longer adequate. I would also say that if we are to react to individualism, then the culture of our companies needs to embrace that. It needs to accept that it is happening and to view it as their priority to react to it properly. The need to be relevant probably means expanding our product and service universe and it also probably means that we are going to have to customize our assortments and

our marketing. For those of us who have real estate-based businesses that's a pretty tough challenge.

We need to understand what products need to be in the long tail and how frequently they are purchased and to be able to get access to them. We are going to have to become multi-channeled retailers and consumer companies to be able to avoid the square-foot constraints that store-based businesses have.

We need to think about our brands. Does Sears need to focus on some of its more core customers or do we need new retail brands that appeal to different groups of customers and choices and preferences?

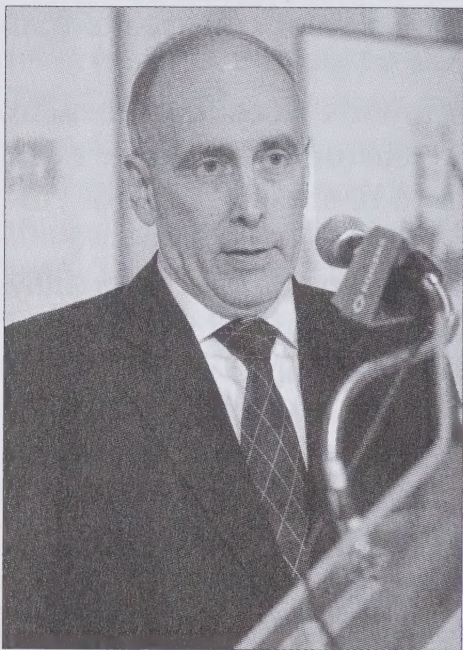
To reduce dependence upon trading partners who may become competitors in the future I think we need to spread the exposure. That means perhaps moving away from China as a production source to emerging economies like Vietnam, but probably having to do that at a faster rate than what the Chinese are doing.

We have to become more productive and we have to be able to deliver increased productivity, which gives us the ability to remain price competitive. I think in particular, as we increase our dependence upon direct imports, and recognizing the fact that we have lower storage capabilities, it enhances the challenge of having to manage our inventory and avoid seasonal reserves and other very necessary accounting procedures to be able to look at the redundancy of inventory.

We should look to align our long-term goals. What would be better than joint venturing with a company, which right now is a partner vendor and looking to avoid having competition with them in the future? And then I also think there's a very strong case for carefully considering using domestic vendors. Creating relationships that are mutually beneficial which reduce that dependence upon direct imports.

Those are some examples of possible actions that I think we can think about and certainly things that we are thinking about at Sears.

The appreciation of the meeting was expressed by Lou Natale, Sales Director, RedKnee Inc., and Director, The Empire Club of Canada.



Don McCutchan, International Business Policy Advisor, Gowling Lafleur Henderson, and third Vice-President, The Empire Club of Canada.



The Hon. Jim Flaherty, Minister of Finance, Government of Canada, and Allan P. O'Dette, Director, External Relations and Public Affairs, GlaxoSmithKline Inc., and President, The Canadian Club of Toronto.



May 8, 2008

The Hon. Michael Kirby

Chair, Mental Health Commission of Canada

CHILDREN'S MENTAL HEALTH AND THE NEED FOR A NATIONAL MENTAL HEALTH MOVEMENT

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Charles S. Coffey, Chair, Canadian Centre for Diversity, and Director, The Empire Club of Canada; Rachael Myra Pettapiece-Phillips, Second Year Honour Student, University of Western Ontario; Reverend Canon Douglas Graydon, Coordinator of Chaplaincy Services, Anglican Diocese of Toronto; Dr. Debra Pepler, Research Professor of Psychology, LaMarsh Centre for Research on Violence and Conflict Resolution, York University; Brigid Murphy, Chair, The George Hull Centre for Children and Families, and Senior Vice-President, The Dominion of Canada General Insurance Company; Michael Howlett, President and CEO, Mental Health Commission of Canada; Georgina Steinsky-Schwartz, President and CEO, Imagine Canada; Dr. Jean Victor Wittenberg, Head, Infant Psychiatry, Hospital for Sick Children, and President, Canadian Alliance for Children's Healthcare; Sylvia Morawetz, Treasurer, Canadian Alliance for Children's Healthcare, Honorary Patron, Regent Park School of Music, and Director, The Empire Club of Canada; Dr. Simon Davidson, Chair, Child and Youth Committee, Mental Health

Commission of Canada, and Chief of Psychiatry, Children's Hospital of Eastern Ontario Department of Psychiatry C14; Dr. David Goldbloom, Board Member, Mental Health Commission of Canada, and Senior Medical Advisor, Centre for Addiction and Mental Health; Gordon Floyd, Executive Director and CEO, Children's Mental Health, Ontario; and George L. Cooke, President and CEO, The Dominion of Canada General Insurance Company, and Past President, The Empire Club of Canada.

Introduction by Catherine Swift

May is Mental Health Month and this week is Children's Mental Health Week. Although much has been done over the past number of years to bring issues surrounding mental health out of the shadows, the stigma still remains in the minds of many people. In fact, a recent public opinion poll on this issue found that 38 per cent of Canadians would be embarrassed to admit that their children suffer from anxiety or depression. And of course if parents cannot even admit the possibility, their children will likely not receive the treatment they need to become well.

Recent statistics show that about 20 per cent of young people struggle with mental-health issues. Not surprisingly, youth with mental-health disorders are much more likely to drop out of school, end up in jail and not become fully functioning members of society. Depression also seems to be affecting younger and younger people as time goes on. The good news is that prevention programs and treatments work, as long as problems are identified and acted upon.

To further inform us on this important issue, we are joined today by Senator Michael Kirby. Michael's academic background includes degrees in Science and Mathematics, and he received a PhD in Applied Mathematics from Northwestern University in 1965. He was Principal Assistant to the Premier of Nova Scotia from 1970 to 1973, and Assistant Principal Secretary to the Prime Minister from 1974 to 1976. He was President of the Institute for Research on Public Policy from 1977 to 1980.

After two years as Secretary to the Cabinet for Federal-Provincial Relations and Deputy Clerk of the Privy Council, he served as Chairman of the Task Force on Atlantic Fisheries. He became Senior Corporate Vice-President of Canadian National in 1983. He was a Senator from 1984 to 2006, during which he chaired the Standing Senate Committee on Banking, Trade and Commerce and the Standing Senate Committee on Social Affairs, Science and Technology, the latter of which focused on Canada's health-care system. After completing a study of mental health in 2006, he was

appointed Chair of the Mental Health Commission of Canada in March 2007.

Please join me in welcoming Senator Michael Kirby.

Michael Kirby

It is always an honour to be asked to speak to the Empire Club of Canada.

I am especially grateful to be asked to speak to you today, as it marks the third time I have had the privilege of standing behind this podium.

In fact, two of these appearances have come within the last year. It is during this past year that I have taken on a new set of responsibilities and challenges as the Chair of the Mental Health Commission of Canada.

My appearance here today is a testament to two things: first, to the commitment of the Empire Club to using its distinguished platform to explore the most important, and often controversial, issues of the day, as well as its tenacity in seeking out speakers who will bring these issues to light.

But it also speaks to the growing recognition that mental-health issues must now be counted amongst the most pressing matters for us to address as a country, as a people and as individual Canadians. More particularly, it is a testament to the urgency of addressing issues relating to child and youth mental health and illness in this country. This is the theme of my remarks today.

The seriousness of the situation with respect to child and youth mental health must not be underestimated. But there is also hope. There's growing attention being paid to mental-health issues by governments across the country, as well as in the media and amongst the general public. We now have what is perhaps a once-in-a-generation opportunity to make real progress.

Despite the efforts of thousands of dedicated professionals struggling under very demanding circumstances, with often limited resources, to provide the best possible

care they can, our progress over the past decade hasn't even come close to what is needed.

In preparing my remarks for you today, I came across a speech I gave in Vancouver six years ago on the plight of children and youth in Canada who are living with mental-health problems and illnesses.

I was struck by how little the situation has changed. The facts tell the same story in 2008 as they did in 2002.

Then—and now—between 15 per cent and 25 per cent of our children and youth suffer at least one mental-health problem or illness. These range from depression and anxiety to eating disorders and substance abuse.

Then—and now—once a child or youth is faced with a single mental-health disorder, chances are they will also be challenged by a second one.

Then—and now—only one in six children and youth with a mental-health problem or illness will be adequately diagnosed, often not until long after the onset of symptoms.

Then—and now—suicide is the second leading cause of death among Canadian adolescents. This makes Canada the third-worst amongst OECD countries.

What does this say to you?

To me, it says that there is a crisis. It says there has been a crisis for many years and that, if anything, the situation is getting worse. Our world is a complex and often confusing one. It constantly places new and exacting pressures on our children. There is a very real danger that this crisis will become a permanent state of affairs.

I'm here to say to you today that this must not be allowed to happen. But in order to stop it from happening, it is critical that we each look at what we—every single one of us—can and indeed must do.

Let me be clear. I am not saying to you simply “action must be taken” and that some distant body or governmental agency or even the Mental Health Commission can accomplish what is required to adequately address the

problem of child and youth mental health. What I am saying to you is that “we—all of us—must take action.”

We can no longer wring our hands. We must roll up our sleeves and get down to work. You cannot do both at once. Hand wringing and problem solving are mutually exclusive activities.

So today, after giving you an idea of the extent of the problem, I want to point to some actions we can take to improve the situation with respect to child and youth mental health in Canada. And by “we” I mean the commission, to be sure, but also you and Canada’s business community.

In the past, I have described the mental-health system in Canada as being the orphan of our nation’s health-care system. For years—forever really—mental-health care has been marginalized, often forgotten, always underfunded.

But the orphan itself has an orphan. That orphan is the child and youth mental-health system, making children living with a mental illness in Canada the orphans of the orphan.

The challenges in child and youth mental health are formidable. There is a vast range of problems and illnesses, and many of these are difficult to diagnose and treat—often more so than physical illnesses.

The stakes are high. For 80 per cent of adults living with mental illness, onset occurred when they were younger than 18. In fact, psychiatric disorders are the single most common illness that begins in adolescence. But, unlike many physical illnesses, the effects of mental-health problems and illnesses on our youngest and most vulnerable citizens can last a lifetime.

Yet, despite the obvious importance of addressing child and youth mental health, many experts in the field say that Canada does not have a coherent system of care. And it is hard to argue against that view.

Among 29 OECD nations, Canada ranks 21st in child-well being, including mental health.

Twenty-first!

This is all the more shocking given our potential. Listen to the words of Canada's Advisor on Healthy Children and Youth, Dr. Kellie Leitch.

"Canada has the potential and the ability to be the Number One place in the world for a child to grow up from a health perspective. We have the resources and the capabilities to reach this goal."

So what is the problem?

One of the reasons for what I call the permanent crisis in children's mental health is the issue of stigma. Stigma refers to the negative and prejudicial ways in which people living with mental illness are labelled. This labelling is so pernicious that people living with mental illness are often seen as nothing more than the disease label itself. No longer a person, merely a label.

Of course, the phenomenon of stigmatizing mental illness is not new. Half a century ago, a report on psychiatric services in Canada described the presence of stigma in these words:

"In no other field, except perhaps leprosy, has there been as much confusion, misdirection and discrimination against the patient as in mental illness.... Down through the ages they have been estranged by society and cast out to wander in the wilderness. Mental illness, even today, is all too often considered a crime to be punished, a sin to be expiated, a possessing demon to be exorcized, a disgrace to be hushed-up, a personality weakness to be deplored or a welfare problem to be handled as cheaply as possible."

In some ways, the age-old stigma against mental illness reflected in these words is starting to fade slowly, but in many ways these words still ring true today.

It is true that today, more Canadians are aware of the realities of mental illness. For example, four out of five Canadians believe depression is a life-threatening illness.

But does this mean that depression is treated as any physical illness would be, that people are actively encouraged by their family and friends to seek the help they need? No it does not! Forty-five per cent of Canadians believe that someone who missed work as a result of depression would be likely to get into trouble and may even be fired.

The effects of stigma are felt as much in acts of omission as in acts of commission. Frankly, I will celebrate when the day arrives that there are as many corporate titans putting their names on the psychiatric wings of hospitals as on cancer research facilities or heart institutes.

If anything, prejudice and stigma affect children more than adults. Think back to your own days as a child or a teenager. Would you have gone to your Mom and Dad and said: "I'm feeling depressed. I think I need to see a doctor?" Not very likely.

But if you'd broken your arm or got a rash or a bad case of the flu, you would have had no problem asking for help.

The situation hasn't changed much since you were a child. Today, two-thirds of youth say that fear, embarrassment, peer pressure and stigma are major barriers to them getting help for a mental illness. And three-quarters of our young people list either "no one" or "friends" when asked who they're likely to speak to about mental-health concerns. Not family, and certainly not health-care professionals.

Many of these issues have surfaced in recent weeks following the tragic death of Nadia Kajouji, the young Carleton University student whose apparent suicide has been the subject of front page news. My thoughts go out to her family and friends at this time of profound loss.

We all need to look inside ourselves and ask the hard questions. Would we be as open with friends and family about our children's mental-health problems as we would about a physical illness? How many of us would have no problem admitting our child suffered from, for example, anxiety or depression?

Unfortunately, not enough of us. In a recent survey, only 62 per cent of Canadian parents said that they wouldn't be embarrassed talking about their children's mental-health issues. That leaves many ashamed Canadian parents out there, not to mention kids who feel distanced from their families at a time when they need them most.

Stigma—albeit often unintended—also persists within the health-care system itself. All too often kids and adults who show up at the emergency rooms of general hospitals get pushed to the back of the queue. Physical ailments take precedence because they are seen to be more urgent.

And then there are children and youth who face the double challenge of a mental illness and a substance-use problem. I often hear of kids being shunted between mental health and addiction treatment. Each system tells them to deal with the other problem first. The result is that they never get the help they need.

Co-occurring disorders must almost always be treated at the same time. People are people; kids are kids, and you can't carve them up into separate compartments. Yet we have an extreme shortage of care providers who have expertise in both mental-health and substance-use problems.

So in a country that has an embarrassment of riches, when it comes to managing our most precious natural resource—our children and their minds—we are faced with an embarrassment of shortages.

Shortages of people are compounded by shortages of time and limitations in education and knowledge. For

example, family physicians, who are often the first port of call in the health-care system for young people with a mental illness, are under pressure to see as many patients as possible. Because caring for patients with mental-health problems is time-consuming, most family physicians cannot find that precious time.

Training in mental health remains neglected in medical schools across the country. This can leave family physicians insufficiently trained to deal with the array of mental-health problems and illnesses they encounter.

And it isn't easy for family physicians to find the specialized resources and backup to assist them in meeting their patient's needs. We do not even know the exact number of child psychiatrists in Canada. There is no Canadian agency or organization that monitors the actual numbers of psychiatrists who practice with children and adolescents, the percentage of their time devoted to child-related practice, or their level of expertise in the field of child psychiatry.

Our system also has great difficulty in putting the right services in the right place, at the right time, and also linking them into an organized system of care. For example, schools are where kids spend the better part of their days and where they build their peer and social networks. It is also where they may confront the onset of mental-health problems.

School counsellors, therapists and psychologists have all been cut back in the last few years, so lots of kids just fall through the cracks. Schools must become a place where mental-health services are provided, not by teachers, but by trained mental-health professionals.

Elsewhere in the world, including New York and London, schools have become a preferred location to deliver children's mental-health services, precisely because it is where children and their parents feel most comfortable seeking help.

There are other troubling dimensions as well.

While the number of children diagnosed with mental illness has risen in the past decade, funding to look after them has not kept pace. This can have only one result. The one in six mentally ill children, who currently get the help they need, will have to wait longer to get it. The other five in six will not be treated at all.

Moreover, while everyone else in the health-care system is concerned about reducing average wait times for certain procedures, there is no such concern when it comes to children's mental health, for the simple reason that wait times are not calculated. So no one really knows what they are. How can you improve something if you don't measure it?

Now some would call this situation a national disgrace. And, of course it is!

But it is also a wake-up call to look carefully at the big picture and finally come up with a strategy that will deliver what Canada has never had—a cohesive system that provides excellent continuity of care. A system that always places the best interests of our children and youth with mental-health problems and illnesses at its centre.

We need a national strategy for child and youth mental health. This will be a major part of the national mental-health strategy that the commission will develop over the next three or four years. This national strategy will provide a comprehensive framework that takes into account our unique and often frustrating jurisdictional realities.

The national strategy will also be useful and practical. I like to say that the commission's national strategy must be "just inside the outer edge of political feasibility." There is no sense in producing a strategy, which is theoretically perfect but politically impossible to implement.

But even if the strategy is a practical one, there is a further ingredient that is required. No matter how good the child and youth mental-health strategy is, no matter how good the overall national mental-health strategy is, they will be useless without the political will to implement

them. Given the magnitude of the changes that are required, this political will must exist across multiple jurisdictions and over a sufficiently long period of time to allow us to get the job done.

What can the commission do to help create that kind of political will?

A good place to start in understanding what is needed—and also for seeing what can be done—is to look at the experience of people who are concerned with other health conditions and diseases. Those that have succeeded in establishing a strong presence on the political agenda, and keeping their cause—their disease—in the public eye, have at least two key factors in common.

First, a national organization of volunteers was created. These volunteers do many different things. They raise money; they volunteer in the health institutions that serve the people battling the disease; they mount campaigns designed to persuade government to increase funding for treatment and research; and they do everything they can to ensure that the public never loses sight of their concerns.

Very little of this happens in mental health. Although many dedicated volunteers across the country have worked hard over the years, they have not been able to build the profile for mental-health issues that is needed, or to establish the framework that would allow mental health to be brought out of the shadows forever.

Therefore, a major task of the commission in the coming months will be to duplicate for mental health the kind of volunteer organization that exists for breast cancer, diabetes, heart disease and stroke, to name but some of the most familiar. We must build on past efforts of mental-health organizations, but move everything to the next level.

Such an initiative will reinforce the efforts of the commission to address the stigma attached to mental illness. Stigma has been the biggest single obstacle to the devel-

opment of a national social movement targeted at improving services for people living with mental-health problems and illnesses. Many people are still reluctant to talk to their friends and neighbours, let alone the general public, about their own mental illness or about mental illness in their family.

Yet, in order for us to build a vibrant volunteer movement, we will need to overcome the hesitancy many people will have to becoming openly involved in mental-health advocacy. In other words, stigma must be fought so that the tens of thousands of Canadians who are affected directly or indirectly by mental-health problems and illnesses can become fully engaged in improving mental-health services and supports.

At the same time, the very fact of building a national volunteer organization will greatly contribute to the work of the Mental Health Commission as it pursues its goal to dramatically reduce stigma. A well-organized and funded grass-roots organization—one that undertakes a series of community-based activities every year—will help to ensure that mental health will be the subject of ongoing publicity and public discussion. It is only by making it completely acceptable to discuss issues relating to mental health and mental illness in public, that we can ever hope to fully eradicate the scourge that is stigma.

Given how intractable stigma has been to date, why do I think it is possible for the Mental Health Commission to be the catalyst for the creation of such a movement? I believe that two factors will make this possible.

First, in the two years since the release of the Senate report, "Out of the Shadows at Last," the amount of media coverage and public discussion of mental-health issues has dramatically increased. The issue is, at least temporarily, out of the shadows.

Second, the Mental Health Commission as a national, non-governmental organization is ideally suited to spearhead this effort. We have excellent relationships with

national, provincial, regional and local mental-health organizations across the country. We are capable of building the infrastructure required to support a national network of community-based volunteers.

Most importantly, since the commission was established, many, many Canadians have asked us what they can do to help. Thousands of Canadians want to help us succeed in our objective of keeping mental health out of the shadows forever.

In addition, the commission has a new President and CEO to give us the leadership and to build the management team that will make our vision a reality. Michael Howlett brings a solid business background and commitment to fiscal responsibility to our cause. He also brings an unprecedented and successful history with mental-health causes ranging from the prevention of child abuse to the treatment and rehabilitation of substance abuse. His recent experience leading the Canadian Diabetes Association includes the development and management of national volunteer networks.

Therefore, I believe that the commission has an excellent chance to be successful in creating a national social movement around issues of mental health and mental illness. The board of the commission has already given commission management the go ahead to embark on this journey. I hope that we will be in a position to launch the movement before the end of the year.

In concluding my remarks on the national mental-health movement, let me emphasize one point. The Mental Health Commission will never—let me repeat never—be involved in directly lobbying governments. That is not our role. That is not part of our mandate.

But by creating a national movement of community-based volunteer organizations, and by providing fertilizer and water in the form of infrastructure support, we will enable a grass-roots movement to grow and flourish.

It is this community-based movement, which will be free to lobby governments for improved services for people in their community who are living with mental illness. That is as it should be. Service improvement must be community-based and what is done must reflect the unique characteristics of each community.

A lobbying effort run from the centre by a national organization such as the commission makes no sense. The country is too varied, and the issues surrounding mental-health service and delivery are too specific to each region, for a centralized national lobbying effort to be effective.

You will recall that I said a few minutes ago that all effective national disease specific organizations have two things in common. One is the national organization of volunteers that I have just discussed. The other is a not-for-profit charitable organization that enables individuals and corporations to contribute money, and be able to receive a charitable tax receipt.

Indeed, for existing disease-based organizations, a great deal of their activity—including much of the work of the volunteers as well as efforts to gain positive media coverage about the disease—is related to fundraising activities.

It will therefore also be necessary to incorporate a national not-for-profit charitable organization as part of the infrastructure of the national mental-health movement. We have already begun the legal work required to create such a body, including the submission of an application to Revenue Canada for a charitable registration number. I hope that this process will be completed by this summer.

This mention of governmental procedures leads me to a more general point about the relationship between mental health and politics. The Mental Health Commission is the child of government. It is funded by the Government of Canada and benefits from the participation of represen-

tatives of five provincial and territorial governments on its Board of Directors.

But mental health and mental illness must never be seen as partisan issues and the commission must never become a politically partisan organization. All political parties must come together to improve mental-health services. After all, mental-health problems and illnesses do not distinguish amongst the members of one political party or another.

In this spirit, let me say that, although I am a former Liberal Senator, I want to congratulate Prime Minister Harper, Finance Minister Jim Flaherty and Health Minister Tony Clement for their unswerving support of the Mental Health Commission. They have made a commitment to fight mental illness that no other federal government has. And the non-partisan spirit of their commitment has been complemented by the co-operation the commission has received from provincial and territorial governments of all parties, and from mental-health stakeholders across the country.

But, as I noted earlier, governments can't do everything. We can't look to Ottawa or Queen's Park or City Hall to adequately address the scale and scope of the issues and problems we confront in the mental-health sector. As I conclude my remarks today, let me say to you as directly as I can that all Canadians need to get involved.

Business, in particular, needs to step up to the plate. Nearly all of you here today are in business, and as we get the national mental-health movement underway, we will be coming to you and seeking your help to turn our vision into a reality.

But employers also need to look in their own backyards. Much can be done to improve the way in which mental-health problems and illnesses are handled in the workplace—things that will benefit not only individual employees who are confronting mental-health challenges,

but also the corporate bottom line. Sometimes, doing the right thing is to everyone's advantage.

Let me illustrate. Studies done by the Mental Health Commission and the Global Business and Economic Roundtable on Mental Health and Addiction have shown that improved case management for employees on short-term disability leave for stress or mood disorders can lead to that employee returning to work much quicker—15 days earlier on average.

The savings this yields in foregone disability insurance and other costs are between two and four times greater than what it costs to implement the improved case management. These are savings that accrue directly to the bottom line.

It is thus in the business interest of the employer to improve the way mental-health issues are addressed in the workplace, in addition to being in the obvious interest of the affected employees themselves.

However, we are not only seeking a corporate commitment. Each of you in this room can individually help us implement our vision, and contribute to enhancing mental-health services for all Canadians, particularly children and youth.

The first thing you can do is to tell your friends and neighbours how important it is that children's mental-health services be improved. Tell them about the state of crisis I described to you this afternoon, educate them about the issues involved and ask them to get involved.

The second thing you can do is to join our national mental-health movement when it is launched. Use the movement as a way to become an active supporter of mental health.

The commission can be a catalyst. But only you can make our efforts successful.

With the help of each and every one of you in this room I believe—truly believe—that we can turn the words of Roy Muise into a reality. Roy is a person living

with a mental illness who testified before the Senate Committee at its hearings in Halifax. He challenged all Canadians in these words:

“To the people of Canada, I say welcome us into society as full partners. We are not to be feared or pitied. Remember, we are your mothers and fathers, sisters and brothers, your friends, co-workers and children. Join hands with us and travel together with us on our road to recovery.”

All of us associated with the commission—all members of the board, advisory committees and staff—have taken up this challenge. I ask each of you to do the same.

The appreciation of the meeting was expressed by George L. Cooke, President and CEO, The Dominion of Canada General Insurance Company, and Past President, The Empire Club of Canada.



The Hon. Chuck Strahl, Minister of Indian Affairs and Northern Development, and Catherine S. Swift, President and CEO, Canadian Federation of Independent Business, and President, The Empire Club of Canada.



May 15, 2008

The Hon. Chuck Strahl

Minister of Indian Affairs and Northern Development
and Federal Interlocutor for Métis and Non-Status
Indians, Government of Canada

PARTNERSHIP, CONSULTATION, EDUCATION

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Gareth S. Seltzer, Director, The Seltzer-Chan Pond Inlet Foundation, and Past President, The Empire Club of Canada; Angela Flamand, Grade 11 Student, Native Learning Centre; Andrew Wesley, Aboriginal Priest, Anglican Diocese of Toronto, and Elder for the Aboriginal Community of Toronto; Clint Davis, President and CEO, Canadian Council for Aboriginal Business; John Beaucage, Grand Council Chief, Anishinabek Nation/The Union of Ontario Indians; Angus Toulouse, Regional Chief, Ontario, Assembly of First Nations; Charles S. Coffey, OC, Chair, Canadian Centre for Diversity, and Director, The Empire Club of Canada; Roberta Jamieson, CEO, National Aboriginal Achievement Foundation (NAAF); Gary Lipinski, President, The Métis Nation of Ontario; and William F. White, President, IBK Capital, and Director, The Empire Club of Canada.

Introduction by Catherine Swift

There are many important current issues in the Canadian Aboriginal community, including the need to upgrade basic living conditions on many reserves, alarming rates of suicide among young Aboriginals and the growth of the off-reserve native population and its implications. There are also very upbeat stories of how various reserves and Aboriginal groups are achieving considerable success with a range of business ventures and a self-sufficient approach to improving their lot.

In light of the fact that Canada, along with most developed countries, is facing considerable problems with labour shortages looming well into the future as our population ages, our Aboriginal population could well be a not-so-secret weapon to help alleviate labour market pressures. If this is done correctly, it should work out to be a win-win for Aboriginals and the Canadian labour market.

According to our most recent census conducted in 2006, Canada's Aboriginal population surged past the one million mark for the first time ever. Our Aboriginal population is growing at a rate six times faster than the non-Aboriginal population. As well, more and more Aboriginals are living off-reserve, with this most recent census indicating that 54 per cent now call urban areas home. Unfortunately, unemployment rates among Aboriginals remain much higher than those in the non-Aboriginal population.

To discuss the important role of Canada's Aboriginal work force, we are fortunate today to be joined by the Minister of Indian Affairs and Northern Development, the Honourable Chuck Strahl. Chuck was first elected to the House of Commons in 1993 as MP for the riding of Chilliwack-Fraser Canyon, and was re-elected in 1997, 2000, 2004 and 2006. During this time, he participated in the Foreign Affairs Review as a member of the House of Commons Standing Committee on Foreign Affairs and International Trade, and sat on the Standing Committee on Natural Resources, the Standing Committee on Industry and the Standing Committee on Heritage. At the close of the 37th Parliament, he was Vice-Chair of the Procedure and House Affairs Committee.

He has also served as Official Opposition Whip and House Leader. He spearheaded the Official Opposition's efforts to work closely with other Opposition parties and to foster parliamentary reform. In 2004, he was appointed Deputy Speaker of the House of Commons and Chair of Committees of the Whole. He became Canada's Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board in 2006, and Minister of Indian Affairs and Northern Development in August 2007.

Please join me in welcoming the Honourable Chuck Strahl.

Chuck Strahl

Thank you, Catherine, for that very kind introduction. I also want to congratulate you for your tireless work on behalf of small and medium-sized businesses in our country. As someone who worked in the logging industry for many years before entering political life, I know first-hand the valuable contribution you've made to advance the interests of Canadian business people.

I'd also like to take this opportunity to salute the Empire Club of Canada. For more than a century, this vibrant organization has provided Canadians from all walks of life with a vital forum to speak to each other, learn from one another and share with one another the enriching stories and lessons of Canadian life.

I am delighted that the Empire Club has demonstrated an affinity for Aboriginal issues. In fact, the names of recent speakers read like a "Who's Who" of prominent Canadian Aboriginal leaders: former Chief Roberta Jamieson, Inuit leader Jose Kusugak, National Chief Phil Fontaine and the Honourable James Bartleman to name a few. And way back on November 12, 1936, a quiet, unassuming fellow by the name of Grey Owl was a guest of the Empire Club.

Now I know full well that Grey Owl is about as authentically Aboriginal as I am. But in his Empire Club remarks, Grey Owl—otherwise known as Archie Belaney from Hastings, England—said something that's as stubbornly true today as it was more than 70 years ago. He identified this country's Aboriginal peoples and the lands of Canada's North as our greatest untapped assets.

What I want to talk to you about this morning is how we need to move forward together, so that Aboriginal people can realize their full potential to the ultimate benefit of all Canadians. I think there are three areas in which we can make real progress to help make this happen, and

I'll go into them more fully in a moment—partnership, consultation, and education.

But first, why has our country failed to take full advantage of this rich human resource? Three reasons come immediately to mind. Far too many Aboriginal peoples remain isolated from the economic mainstream of our country. Far too many First Nation communities have unresolved specific and comprehensive claims with federal, provincial and territorial governments. And far too many Aboriginal youth aren't gaining the education and skills they need to enter the modern work force.

But I don't want to dwell on why Aboriginal peoples have been for too long an untapped asset. I'm an optimist. I prefer to work openly with others to find solutions to problems as they stand right now and to challenges that loom on the horizon.

In this spirit of optimism, let me tell you that there is some good news. The situation is changing—too slowly for my liking, but it is changing.

Today, Aboriginal workers are playing greater roles in local and regional economies.

Young Aboriginal people who complete high school are beginning to receive the vital training and support they require to thrive in today's fast-paced, volatile information economy.

First Nation communities and Inuit groups that have resolved their claims are taking advantage of natural resources in and around their traditional lands and waters.

And in Canada's North—where we are seeing huge economic growth opportunities that will benefit Canada for generations to come—our northern communities are proactively getting involved to maximize our potential.

These are clearly positive developments. Increasing Aboriginal participation in the Canadian economy is the most effective way to ensure that Aboriginal people and other Canadians enjoy the same opportunities for suc-

cess when it comes to education, housing, health care, social services and other key ingredients of healthy and fulfilling lives.

But these are not just positive developments for Aboriginal peoples. Make no mistake: all Canadians have a tremendous stake in the success of Aboriginal people in Canada. Strong, healthy, self-reliant Aboriginal peoples and communities have much to contribute to everyone. After all, there is only one economy, and the more that First Nations, Inuit and Métis participate in and contribute to that economy, the better off all Canadians will be. In fact, I firmly believe that Canada won't realize its enormous potential until all people fully participate in our country's vibrant economic life. For those who might think I'm exaggerating, just consider the facts.

Aboriginal people in Canada are on average younger than other Canadians—fully half of the Aboriginal population is under the age of 25. At the same time, Aboriginal peoples represent the fastest-growing segment of our population. In fact, Canada's Aboriginal population is growing by leaps and bounds—particularly in the Western provinces and Northern territories. Since 1996, the Aboriginal population has increased by 47 per cent, compared to only eight per cent for the rest of Canadians.

I believe these trends represent significant opportunities for long-term economic growth. If we as political, business and Aboriginal leaders act properly, this exploding population should result in expanding markets for goods and services, fresh supplies of workers and entrepreneurs, and tremendous economic returns for us all.

In fact, many Aboriginal youth are already hard at work starting up their very own businesses. These young entrepreneurs show enthusiasm, energy, persistence and savvy. They employ members of their communities, they inject capital into local economies, and they grow secondary industries. And in the classic spirit of entrepreneurship, they identify, develop and exploit

opportunities for sustained economic growth in areas that would otherwise remain neglected.

For years, economists have trumpeted the fact that small and medium-sized businesses are the real engine of the new Canadian economy. If this is the case, then these young Aboriginal entrepreneurs have their foot on the gas!

But our country needs more of them. And we need to ensure more Aboriginal people play active roles in our local, regional and national economies regardless of whether they run their own businesses or work for someone else. Why? In the straightforward yet eminently wise words of Chief Clarence Louie of the Osoyoos Indian Band in Beautiful British Columbia: "The best social program is a job."

I wholeheartedly agree with Chief Louie.

I can assure you that this government—working alongside our partners in different levels of government, Aboriginal organizations and First Nation communities—are doing everything we can to ensure Aboriginal peoples play increasingly active roles in the economic life of our country. In fact, there are three areas in which we are making strong headway, which brings me back to the points I was mentioning earlier on: partnership, consultation and education.

Partnerships are a vital way to successfully involve increasingly greater numbers of Aboriginal peoples in the workplace. Building partnerships is nothing new to the business community. Many in the private sector recognize that partnering with Aboriginal-owned companies is no longer just a matter of good corporate citizenship; it's also good business. To quote the Conference Board of Canada: "Corporations that ignore the economic potential of Aboriginal people do so at their own peril."

This quote helps explain why multi-national corporations partner with Aboriginal businesses in dozens of ventures. Several Aboriginal companies are involved in

oil-sands development in Alberta. In Voisey's Bay, Labrador, a multi-billion dollar project involves Inco, the government of Newfoundland and Labrador, the Innu Nation and the Labrador Inuit Association. Indeed, across Canada, an increasing number of First Nation communities and Aboriginal organizations are forging similar partnerships on all manner of projects.

This government is playing a leading role to encourage and support these and many other types of business partnerships. Aboriginal financial institutions are a prime way we as a government are using partnerships to help Aboriginal entrepreneurs generate tangible economic results. There are 57 Aboriginal financial institutions—or AFLs—located across Canada. These AFLs are Aboriginal-owned and -operated lending organizations that deliver financial services and loans to First Nations, Inuit and Métis who own small and medium-sized businesses.

Why were these vital financial institutions created? Going back 20 years, Aboriginal entrepreneurs had great difficulty getting commercial loans from conventional sources. Provisions in the Indian Act, which prevented these entrepreneurs from pledging assets, were largely responsible. These budding entrepreneurs also lacked track records as successful business people and had yet to acquire proven business expertise.

Thanks to partnership, the situation is much different today. In addition to helping found AFLs, the Government of Canada has invested more than \$200 million to capitalize them. The AFLs have done the rest. Using this capital and rolling it over many times, AFLs have invested \$1.2 billion in the Canadian economy via more than 30,000 loans to Aboriginal entrepreneurs.

This access to capital has been—and continues to be—critical to long-term Aboriginal economic self-sufficiency. Consider the case of Waubetek Business Development Corporation. This AFL, which serves 27 First Nation communities as well as off-reserve and Métis

clients throughout Northeast Ontario, has granted \$28 million in loans to 750 Aboriginal businesses in all manner of industry sectors—from tourism to forestry and construction.

The impact of these loans is straightforward yet profound. Ninety-five per cent of the businesses that have received loans remain in operation. Equally important, 21 of the First Nation communities in the geographic region covered by the Waubetek Business Development Corporation contribute more than \$240 million each year to the provincial economy—substantial results from business partnerships that work.

Another prominent way the federal government has been working to bolster Aboriginal participation in Canada's economy is through our efforts to build an Aboriginal Economic Development Framework. This partnership-based, opportunity-driven approach, which we intend to have in place by the end of this year, will not only build on the economic development results we have achieved already, but will also create new measures to help Aboriginal peoples participate more fully in local, regional and national economies.

To develop this framework, the federal government is working with a wide range of Aboriginal groups, notably the National Aboriginal Economic Development Board. The Government of Canada recently strengthened the role of the board and appointed outstanding Aboriginal business and community leaders to it, including its new chairperson, Chief Clarence Louie, whom I mentioned earlier. Made up of business and community-development leaders of First Nations, Métis and Inuit heritage, as well as non-Aboriginal members, the board is now playing a direct and increasingly vital role in advising the federal government on economic-development approaches and on matters related to major investments in Aboriginal ventures.

Because we need skilled workers of all kinds and potential workers need skills, our government has more than doubled the size of the Aboriginal Skills and Employment Partnership—a program that really has produced results. About 16,000 Aboriginal people will benefit from this investment.

Let me give you another solid example of a productive partnership. Our government has introduced an innovative, decisive new approach to resolving the specific claims of First Nation communities. The cornerstone of this effort is the Specific Claims Action Plan—a bold step we have taken with the Assembly of First Nations to introduce impartiality, fairness, faster processing times and better access to mediation into the specific claims process.

In fact, legislation now before Parliament will establish an independent Specific Claims Tribunal to make binding decisions on claims if negotiations have proven unsuccessful after three years of effort. We have made this move because we recognize that settling these claims gives business people the certainty and confidence they need to unleash promising economic opportunities for all Canadians, but especially for First Nations.

Successful working partnerships also mean that we in government have the duty to consult with Aboriginal groups whenever an economic development project may impact an Aboriginal and Treaty right. I know this issue is of particular interest to those of you in the business community.

To ensure our efforts to promote economic development are channelled toward collaboration instead of litigation, our government introduced an action plan on consultation and accommodation. The plan will help all federal departments and agencies live up to their legal obligations to properly consult with First Nation, Métis and Inuit groups when Crown conduct may affect established or potential Aboriginal and Treaty rights.

The action plan will also, in the long term, provide more predictability, certainty and transparency on when and how to practically consult and possibly accommodate Aboriginal groups.

With regard to large development projects, we recently announced the launch of the Major Projects Management Office. One of the important services the office provides is the integration of Crown consultation requirements with Aboriginal groups at the beginning of the process—further demonstrating this government's commitment to consulting with and listening to Canadians, particularly those who would be most directly affected by resource development projects.

I think I should add here that it is not just incumbent on government to consult. It is also simply good business for the private sector to work with and engage Aboriginal groups as early as possible in the development of projects, which may affect them. As partners and as a source of labour, there is simply no question that everyone benefits when all parties who could be involved are brought early into the process.

The third way in which we can ensure Aboriginal peoples play increasingly active roles in the economic life of our country is education. The role of education in promoting economic growth cannot be underestimated. And it's the main reason why we will spend \$1.7 billion this coming year on First Nations and Inuit education, including \$300 million to enable more young people to take advantage of post-secondary education opportunities off reserve.

Why all this investment? Education opens the door to employment opportunities. It's as simple as that.

But we're also working to accomplish this goal in ways other than spending money. An ideal example is the agreement signed between the federal government, the province of British Columbia, and BC First Nations. This landmark accord—now ratified by Parliament—enables

participating First Nation school authorities in the province to develop curricula firmly founded on their communities' rich histories and cultures.

And just a few weeks ago I was in New Brunswick to sign a Memorandum of Understanding on education with the province of New Brunswick aimed at improving education outcomes for First Nations students—whether they attend Band-operated schools on reserve or provincial schools off reserve.

I'm convinced this approach will translate into a fuller, more culturally relevant education for Aboriginal students, the result of which will be more Aboriginal students graduating from high school and entering universities and colleges throughout the country.

This outcome alone is well worth pursuing. But when more young Aboriginal people gain the education they require to play meaningful roles in modern economic life, the bottom-line results are staggering for us all.

Listen to this. A recent report prepared by the Centre for the Study of Living Standards estimates that if Aboriginal Canadians were able by 2017 to increase their level of educational attainment to the level that non-Aboriginal Canadians reached in 2001, Canada's GDP would increase a further \$71 billion.

And, if in addition to ensuring the same educational outcomes between Aboriginal and non-Aboriginal Canadians, we were to eliminate the disparity between Aboriginal and non-Aboriginal workers in terms of employment rate and employment income, the contribution of Aboriginal peoples to our country's GDP over the 2001–2017 period would increase to \$160 billion.

This, as I am sure we would all agree, is a significant amount!

Closing these gaps will require us to make the investments and take the steps necessary to ensure young Aboriginal people can access high-quality education and achieve increasingly higher grades and performance. It

will also require political, business and Aboriginal leaders to increase their commitment to partnership and consultation.

Partnership, consultation and education. Those are three broad but vital areas in which the federal government is taking action to ensure an increasing number of Aboriginal people participate in, contribute to, and benefit from, the Canadian economy.

As I look around this room of accomplished, ambitious business people, I know that you too can take action in these areas. Look for opportunities to partner with Aboriginal peoples and Aboriginal businesses. Get involved in efforts to improve consultations among industry, governments and Aboriginal people. Reach out and take advantage of what will become an increasingly educated and skilled Aboriginal work force.

If you look at today's report published by the Conference Board of Canada, you will notice case studies of successful Aboriginal businesses, all of which reiterate my message. Business partnerships are there to be had and they are in everyone's best interest. The report speaks about key elements of successful businesses, including skills development, partnerships, and access to capital. It also speaks about another key ingredient that pulls all of this together, and that is visionary leadership. It identified leadership in all regions of the country. Successful Aboriginal companies are found in the resource sectors, in service industries, in the high-tech businesses, but consistently they are successful because of collaboration, not confrontation; because of consultation, not litigation.

They are successful when governments, Aboriginal people, and the business community make it a priority to work together. They are successful when all of our citizens, including Aboriginal people, are active participants in our nation's economy. And when these businesses see

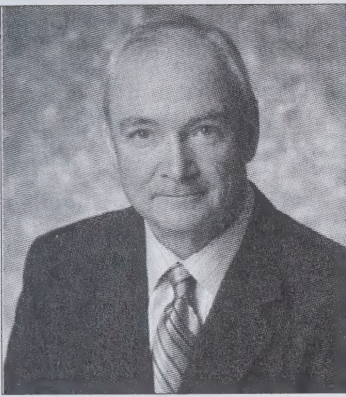
such success, Canada will be able to reach its full potential.

I look forward to working with all of you and all of our Aboriginal people, as we partner together to achieve this desirable goal. Thank you very much for having me.

The appreciation of the meeting was expressed by Charles S. Coffey, OC, Chair, Canadian Centre for Diversity, and Director, The Empire Club of Canada.



William F. White, President, IBK Capital, and Director, The Empire Club of Canada, and The Hon. Chuck Strahl, Minister of Indian Affairs and Northern Development.



May 22, 2008

Hugh MacDiarmid

President and CEO, Atomic Energy of Canada Limited

NUCLEAR ENERGY: THE THIRD PILLAR OF CANADA'S ENERGY FUTURE

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Ann Curran, Director, Corporate Relations, AIC Limited, and Past President, The Empire Club of Canada; Liz Wong, Grade 12 Student, Riverdale Collegiate Institute; Reverend Canon Philip Hobson, Rector, St. Martin-in-the-Fields Anglican Church; Rafia Waraich, Graduate—Engineering and Society, McMaster University; Edward P. Badovinac, Director, The Empire Club of Canada; Dr. Valentin Naumescu, Consul-General, Consulate General of Romania in Toronto; Stanley H. Hartt, Chairman, Citigroup Global Markets Canada Inc., and Director, The Empire Club of Canada; Patrick Lamarre, President and CEO, SNC-Lavalin Nuclear; and Larry Cann, UA Special Representative, Building and Construction Trades Department.

Introduction by Catherine Swift

The world entered the atomic age in December of 1942, when the first sustained nuclear reaction was successfully completed in an

athletic stadium at the University of Chicago. The pressure was on because of the Second World War underway and the fear that Hitler would succeed in developing such a reaction and proceed to use it for the construction of a bomb. Although physicists in many countries had warned about this possibility for some time, the Japanese bombing of Pearl Harbour in December of 1941 served to finally get the attention of the U.S. and British governments. Following Pearl Harbour, these governments finally agreed to devote the resources necessary to support the program that became the famous Manhattan project.

The bombs that resulted from the Manhattan project were those later dropped on Hiroshima and Nagasaki in August of 1945, the most horrendous use of nuclear weapons to date in populated areas. Following the end of the Second World War, the pursuit of peaceful uses of nuclear power began. Atomic power had a bad reputation among the general public as a result of memories of the bombs, so there was considerable opposition to be overcome. After considerable development work, nuclear power became commercially viable around the mid- to late-1950s. Some years later, it was concluded that nuclear power did not turn out to be as economically viable as first expected, but that of course was in a world that could not have foreseen \$130-a-barrel oil.

Canada has had long involvement in the nuclear industry, being an active participant virtually from the beginning. Atomic Energy of Canada Limited has a well-established presence in the industry, and in its 50-plus year history has played a significant role in constructing nuclear facilities around the world.

Our speaker today, Hugh MacDiarmid, will discuss the role of nuclear power in Canada's emergence as a global energy superpower. Mr. MacDiarmid was recently appointed President and CEO of AECL by the Prime Minister of Canada effective January 2008. He came to AECL with a broad range of executive and professional experience, with a focus on technology-intensive businesses and transportation-related industries, with extensive exposure to international commerce.

He has operating executive experience in corporations such as Canadian Pacific Railway and has also worked in smaller and mid-sized companies such as Lumonics Inc., a Canadian manufacturer of laser systems and Holden America LLC, a railway components supply business. Early in his career, he was a partner with McKinsey & Company, a leading international management consulting firm.

He has served on a number of boards in the high-tech sector and has served on the board of the Public Policy Forum and has been Chairman of the Board of Trustees of the Ottawa General Hospital.

He obtained his Honours Business Administration degree from the Ivey School at University of Western Ontario and his MBA from Stanford, where he graduated as a Miller Scholar.

Please join me in welcoming Hugh MacDiarmid.

Hugh MacDiarmid

Introduction

Thank you, Catherine, for your warm introduction. I'm excited to be speaking to the Empire Club—a true Toronto institution!

I'm also excited to have joined the nuclear industry, a key element of our power generation infrastructure.

I'm a Nuclear Newbie, or a Newbie Nuke. Either way you say it, I'm learning big time. I've come to understand and appreciate the industry's focus on safety, on reliability, and on excellence in operations, engineering and project management. I've learned that reliable electricity is hugely important to our quality of life, often taken for granted. I've also learned how important nuclear energy is to our future. In short, I've become a passionate advocate and "Nuke Fan" in a very short period of time so don't expect me to be too analytical and dispassionate. I'm here to inform, maybe to educate, and certainly to stimulate your thinking.

First, a few words about my company. Our name says it all—Atomic Energy of Canada. We are Canada's nuclear energy company. Our mission as an organization is to deliver safe, reliable, economic and sustainable nuclear energy solutions worldwide.

We employ roughly 5,000 people, of which over 70 per cent have post-secondary education and over 850 people have either a master's degree or a doctorate—an astounding nucleus, and I mean it, of brainpower.

Our company is a Crown Corporation, owned by the Government of Canada. We are in our 56th year of existence and have compiled an admirable track record over the years of technical innovation, of global marketing and

project management, and can point to a fleet of over 30 CANDU reactors that have established our brand around the world.

We have a dual mandate from our shareholder. The first element is to be the nuclear platform, the repository of scientific research capability for our country, supporting not only AECL and the fleet of CANDU reactors that is already operating but also offering services to scientists and the academic community. This is carried out primarily from our Chalk River Laboratories facility west of Ottawa—the birthplace of CANDU technology. As you also know from recent media coverage, we also produce radioisotopes at Chalk River, and have commercialized this technology to enable our business partner, MDS Nordion, to supply valuable products and services to patients across North America and around the world.

The second element of our mandate is to operate a commercially viable business, selling and delivering nuclear power reactors, and providing services to the operators of these reactors around the world. This we do primarily from our Sheridan Park complex in Mississauga, drawing heavily of course on the scientific expertise resident in Chalk River.

I'm very proud to be associated with an organization that represents the finest Canada has to offer in terms of technology, people and global reach.

I want to leave you with three key messages today:

Number 1. Nuclear energy is for real. It is an important part of the energy mix into the future and for all the right fundamental reasons.

Number 2. The nuclear industry must demonstrate the ability to deliver major projects on time and on budget, and must convince citizens that we have a safe and sustainable program to manage spent nuclear fuel.

And number 3. I want to advocate a long-term mindset for nuclear policy and decision making. Nuclear reactors

are an investment with a 60-year life and decision-making needs to reflect that timeframe.

The Global Nuclear Renaissance—Nuclear is For Real

Message number 1. Nuclear is for real.

While the debate around energy is often divisive, politicians, business leaders and environmentalists agree that there is a need to find new and innovative ways to meet the growing demand for energy.

Energy demand—especially for electricity—will continue to grow as economies around the world industrialize. And recall right now there are over 400 reactors operating, producing nearly 20 per cent of the world's electricity. The International Energy Agency predicts that worldwide energy consumption will continue to grow by 2 per cent a year from now until 2030 and this prediction factors in some very aggressive conservation efforts. This represents a tremendous amount of market potential for nuclear power.

The fact that nuclear produces virtually no carbon dioxide emissions makes the environmental case for nuclear energy compelling from the perspective of global climate change. Continued fossil fuel burning to produce base-load electricity just isn't environmentally sustainable in the long-run, but the base-load power has to come from somewhere and, in that context, nuclear is definitely part of the answer. It has arguably the smallest environmental footprint for base-load generation of any energy source.

The case for nuclear becomes even more compelling in the face of the rising cost of oil, which in turn is driving all fossil fuels upward in cost. Look no further than your local service station to see that. Add to that a growing willingness to use economic incentives, which itself adds cost to fossil-fuel derived energy. Renewables have their place in the mix, but they are not suited to base-load operation because of their intermittent nature.

Nuclear plant operators have a much lower exposure to fuel cost escalation than operators of fossil-fuel plants, as fuel is a much smaller proportion of lifetime cost for a nuclear facility than it is for coal or other carbon-based fuels.

To give you a little more perspective, eight pellets of natural uranium, the size of this pellet—mined in Canada, by the way—produce enough electricity to power a house for a year.

This one pellet, which weighs about 20 grams, can provide energy equal to:

- 400 kilograms of coal;
- 270 litres of oil; or
- 300 cubic metres of natural gas.

Saskatchewan alone is sitting on 350 million kilograms of this stuff, about one-quarter of the world's known supplies or equivalent to 18 billion barrels of oil.

Public acceptance and support for nuclear has continued to rise. According to a recent Ipsos Reid poll conducted on behalf of the Canadian Nuclear Association, support for nuclear power has risen 12 percentage points in Canada since 2005 and stands above 60 per cent in Ontario. I know some politicians who would really appreciate that kind of support! And internationally, the same trends apply, though the industry still has some distance to go. The trends are moving in the right direction and communities are even competing to host large nuclear facilities.

From the nuclear technology side, an already very good safety record is being improved upon. The new Generation III reactors, being developed by all major reactor vendors, are building in even more robust safety features and the international regulatory regimes overseeing nuclear safety have greater competencies and oversight powers than ever before.

Nuclear in Canada

This leads me to offer a few words about Canada and the opportunity for this industry in our country.

The Prime Minister and the media have declared that Canada is becoming an energy powerhouse, but most of the attention has been focused on Canada's incredible strength and abundance of riches in the oil and gas sector.

But I would like to emphasize the point that there is a vibrant energy sector in Canada beyond oil and gas. If the first pillar of our energy infrastructure is oil and gas, and the second is our proud history of hydro-electric and renewable power, the third pillar most certainly is, and needs to be into the future, nuclear power.

And across Canada, we are looking at many great opportunities.

In Alberta, an expert panel led by Harvie Andre, has been struck to examine the opportunity for nuclear energy as part of the answer to the incredible growth of demand for power in that province. They are also looking into the question of whether nuclear-produced steam and electricity can be a part of the answer in extracting oil from the oil sands.

In Saskatchewan, Premier Wall has mused about whether a nuclear power plant in his province might make economic sense and he has been actively promoting a plan throughout Canada and the U.S. that will see more of the uranium mined in Saskatchewan refined and processed there.

In Ontario, AECL is presently working on a major mid-life extension project with Bruce Power and of course, you are all aware of the current process in Ontario that I can't talk about. Ontario is the third most nuclear-intensive electricity grid in the world—after only France and Lithuania—with over half our electricity coming from nuclear. Nuclear can and will provide a stable base load of clean power to Ontarians for generations to come.

In Quebec, a study is underway for the mid-life extension of the Gentilly reactor operated by Hydro Quebec, and I am hopeful they will decide to retain nuclear power as part of their electric power mix.

And finally, in Atlantic Canada, Premier Graham has laid out a compelling vision for his province that will see New Brunswick become an integrated energy hub featuring a refurbished CANDU at Point Lepreau alongside a new ACR-1000 reactor. New Brunswick is presenting AECL, and its Team CANDU partners, with a challenge to create a compelling economic case based on a merchant model to construct the new reactor—a truly exciting opportunity for our consortium.

CANDU and AECL Around the World

Around the world, AECL has had great success in marketing our natural uranium reactors in mid-market countries where the CANDU 6 fits the local power grid and where using natural uranium is a big factor. We have delivered on-time, on-budget projects in Korea, Romania and China in the last 12 years, and we are in active discussions pursuing new-build opportunities in Argentina, Romania and Turkey, with even more market opportunities to be announced in the coming months. The CANDU 6 is a good fit in these markets and our newest Generation III+ reactor—the ACR-1000—will fit other larger nuclear markets in years to come.

I am honoured to be joined today by Dr. Valentin Naumescu, Consul General of Romania in Toronto. His country is an important market for us and is representative of the future prospects for AECL in global markets around the world.

So, nuclear is for real, both here and around the world. The growth of nuclear will be driven by sound fundamentals as the global community seeks energy production solutions that are more environmentally sustainable and have sound economic bases.

Nuclear Industry Challenges

My second message relates to the challenges the entire industry faces: project delivery and management of spent fuel.

Nuclear power plants are big, complex and expensive things to build. So it stands to reason that if the cost of construction can be managed better, then the economics of nuclear become even more compelling.

A key challenge is the inevitable supply crunch for new nuclear construction that is coming in a matter of a few years. With between 75 to 100 new-build projects in various stages of development around the world, and many more under active consideration, the supply of talent and critical components will become even tighter. These are risks that have to be considered and carefully managed. And, in fact, AECL has some history in doing this. You'll recall that we were building four new plants concurrently in the '80s.

To address the constructability challenge, the first part of our answer was to design the plant to be built in modules so that work could take place in parallel—sometimes in different locations—and assembled on-site. This mitigates much of the construction and time risk. Altogether, we anticipate a 42-month project completion for the ACR-1000 from first concrete pour until fuelling and start-up.

Perhaps the most important factor to the success of the ACR-1000, however, is the strength of our partners, such as Patrick Lamarre from SNC Lavalin Nuclear, who has joined me on stage today, or other brand-name companies such as Hitachi Canada, Babcock & Wilcox and GE Hitachi Nuclear Canada. These companies, key members of Team CANDU, represent business partners that believe in AECL, believe in this technology, and who themselves bring decades of experience and innovation to the team.

They are joined by over 100 mostly Canadian small and medium business suppliers that make up the Organization of CANDU Industries: our vitally important

supply chain. We may be a big company, but we couldn't do it without the backing of innovative business partners in the small and medium business community across Canada. I am pleased that so many of these partners are represented in the audience today. Thank you.

At the end of the day, construction is mostly a challenge of management—not of technology. It is a challenge that careful planning, co-operative relationships with your work force, the effective use of partnerships and the oversight of strong management can meet. I am pleased that the Building and Construction Trades Council, representing 400,000 construction and trade workers across Canada, has sponsored this event today. I value that partnership.

Let me turn to the matter of spent fuel.

Waste management—whether nuclear waste management or the management of emissions that go up smoke stacks—has to be looked at from the perspective of the footprint it leaves on the world. Nuclear waste produces a relatively small and contained footprint, while fossil fuels produce large quantities of emissions and waste, some of which contributes to global climate change.

Spent fuel needs to be contained and managed—there is no denying that—but it can be done and we do have a blueprint.

In fact, we have a very sensible and practical answer right here in Canada.

We support the Canadian Nuclear Waste Management Organization in its mission and support its Adaptive Phased Management process for the long-term management of spent nuclear fuel.

Their work offers a long-term and cost-effective solution to this problem. Current dry storage and future long-term underground management represent a sensible strategy. My staff have some brochures at the back which describes this process in greater detail for anyone who wishes to learn more.

And now, on to message number 3.

When making a 60-year investment, looking out over the horizon to the long-term issues is more than important; it is critical.

One specific long-term issue that I want to raise is what we term fuel cycle flexibility or in plain English, the ability to use alternative fuels. At AECL, we believe the supply-demand dynamics of uranium must eventually change. As more reactors come on-stream, demand will increase. Exploration activity is increasing, but we see it as inevitable that uranium supply will ultimately become constrained. An extensive fuel resource, several times more prevalent than uranium, is thorium. Thorium is a basic element that when placed in a reactor becomes fissile with radioactive properties, like uranium, and becomes a viable neutron source—in other words, a viable source of energy.

Now, this won't be implemented tomorrow, but thorium offers a long-term option for security of supply. We believe research must continue, and indeed accelerate, into this kind of fuel cycle flexibility.

In another aspect of fuel cycle flexibility, just two weeks ago, AECL hosted an international conference with representatives from seven countries, to further explore the suitability of CANDU reactors as a platform for advanced fuel cycle technologies. The initiative was to coordinate the possible use of recovered uranium obtained from the reprocessing of used light water reactor fuel. Such an application would address the global push towards the security of fuel supply, and reduce the inventory of spent fuel that needs to be managed and stored.

Let me stray from my central messages for just a moment to comment on recent developments at AECL. I wouldn't be doing justice to the Empire Club podium if I didn't speak to the recent issues and associated media commentary.

Our decision to discontinue the Maples project was a business decision, not a technology decision. We evaluated our options, assessed the marketplace, technology and economics and concluded that there was no sound basis for continuing. We made the choice by looking forward, not back. We will continue to fulfill our commitment to isotope production.

The NRU shutdown last November was an avoidable event that occurred for a number of complex and inter-related reasons relating to the regulator and AECL and to interpretations of our site license conditions. The CNSC and AECL have commissioned an independent study that will be published soon and that will point to important lessons learned and operating experience that we both will apply in the future.

AECL is not perfect, but we are a fine designer and builder of nuclear power reactors. There is no basis to connect the NRU and Maples issues to our ability to design and deliver a CANDU reactor. The Maple reactors are low power machines that were first-of-a-kind development projects at the frontiers of design—high risk from the outset. CANDU reactors are proven technology that has been installed successfully around the world. The ACR-1000 has 100 times the power output of a Maple reactor. It is simply not the same machine. We have thoroughly validated the ACR design using independent experts and all will confirm that the design is sound.

Let me wrap up with the briefest of advertorials on AECL and CANDU. I start from the premise that all reactor vendors make fine products. They all work well, including ours. The CANDU design has certain features that stand apart from the crowd, and purposefully so. We believe our design is leading-edge in terms of safety, productivity, operational flexibility and fuel flexibility. We also believe our track record is excellent in terms of project management and on-time and on-budget delivery of power reactors.

We accept the challenge of the marketplace. We are confident in our business case; confident in our technology and design; in our safety record; in our plant productivity and capacity; in our environmental management plan; and in how we deal with construction risk.

On the global stage, we can and will succeed.

Our future is bright. A future represented by the next generation of nuclear scientists and engineers such as Rafia Waraich, who has joined the head table today. Rafia is a recent graduate with an Engineering and Society degree from McMaster University and worked for AECL as a student. She also runs Kids 'N' Quarks, a science and engineering camp for kids, that AECL supports. Rafia represents the future of our company and of our industry in Canada. And a growing nuclear industry in Canada presents enormous high-tech job opportunities for our young people.

Conclusion

In closing, demand for all types of energy is growing throughout the world and nuclear energy is poised to grow with rising energy demands.

Canada is well positioned to capitalize on the future potential of nuclear energy given this country's track record and experience. But success will require us to see beyond oil and natural gas and include nuclear energy in a vision of Canada as an energy powerhouse. Becoming a strong global player in the nuclear sector will require Canada to build from its solid nuclear energy foundation at home.

In other words, the nuclear story is undeniably real and it is a key part of our energy future.

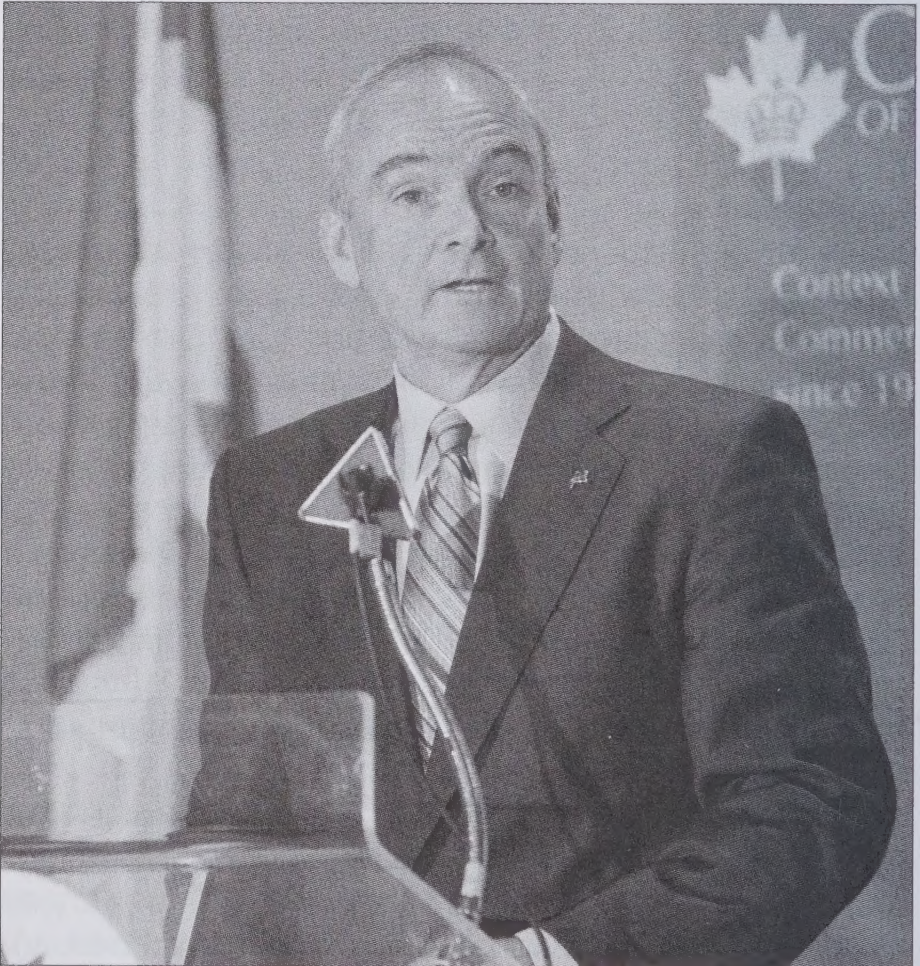
Challenges do exist—I have no doubt about that—but they can be overcome. With goodwill, hard work, innovation and a little perspective on the magnitude of those challenges, I believe that not only can solutions be found, but that most of the solutions already exist.

And finally, AECL has a suite of products that are well suited to the future market for nuclear energy. With flexible fuel sources, well-managed construction, and design that maximizes operational efficiency over the long-run, the commercial case for our product is very strong.

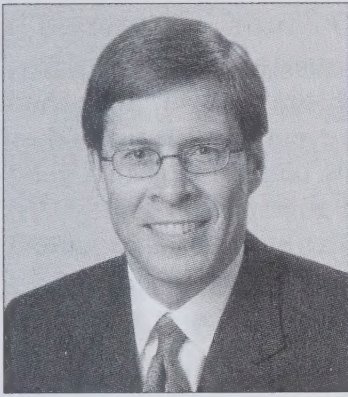
AECL is Canada's nuclear energy company, and CANDU is tomorrow's nuclear energy technology. We're proud of it and I hope you are too.

Thank you for your time and attention.

The appreciation of the meeting was expressed by Stanley H. Hartt, Chairman, Citigroup Global Markets Canada Inc., and Director, The Empire Club of Canada.



Hugh MacDiarmid, President and CEO, Atomic Energy of Canada Limited.



June 5, 2008

R. Jeffrey Orr

President and CEO, Power Financial Corporation

CORPORATE GOVERNANCE REGULATION: ARE WE MISSING THE MARK?

Chairman: **Jo-Ann McArthur**

First Vice-President and President-Elect,
The Empire Club of Canada

Head Table Guests

Bart J. Mindszenty, APR, FCPRS, Partner, Mindszenty & Roberts Corporation, and Past President, The Empire Club of Canada; Ratharam Sivagnanam, Grade 12 Student, Westview Centennial Secondary School; Rev. Dr. John S. Niles, MSM, Senior Minister, St. Andrew's United Church, Markham, and Past President, The Empire Club of Canada; D. Allen Loney, President and CEO, Great-West Lifeco Inc. and its affiliates: Great-West Life, London Life and Canada Life; The Hon. William G. Davis, PC, CC, QC, Counsel, Torys LLP, and Honorary Solicitor, The Empire Club of Canada; Heather Ferguson, President, The Hearing Foundation of Canada, and Director, The Empire Club of Canada; Charles R. Sims, President and CEO, Mackenzie Financial Corporation; and Tom Flynn, Executive Vice-President and Chief Risk Officer, BMO Financial Group.

Introduction by Jo-Ann McArthur

Well I dare say we would not have filled a quarter of this room five, even two, years ago on the subject of corporate governance. And yet on just a few weeks notice we sold this event out; the times they are a changin.' No doubt everyone here now understands that good management is not possible without good governance. Jeffrey Orr, as CEO of Power Corp., has a dual perspective as both an issuer and an investor.

With roots in Montreal going back to 1925, the Power group has grown to become an important presence in the financial services industry, controlling leading Canadian companies in life and health insurance, mutual funds and financial planning. Jeffrey Orr started his career at the old Nesbitt Thomson in 1981 and moved quickly through the ranks, before winding up in 1999 as Chairman and CEO of BMO Nesbitt Burns. He has been a part of Power Financial since 2001, most recently as President and CEO, leading the strategic refocusing of Investors Group and the successful integration of Mackenzie into Power Financial.

So, have our Canadian regulators got it right? Is there such a thing as a one-corporate-governance model fits all? I know Mr. Orr has a few things to say on that subject.

Please join me in welcoming Jeff Orr.

Jeffrey Orr

Hello ladies and gentlemen. It's my pleasure to have the opportunity to address you here today.

I want to share some thoughts with you today on the topic of corporate governance. More particularly, I want to share with you my concerns on where the governance regulations may be heading, and why I think policy in this area, as well-intentioned as it may be, could prove to be a bad thing for many Canadian businesses.

Now worrying about corporate governance is not something that keeps a lot of people up at night. In fact, some would say that if you are having trouble sleeping, reading a speech on corporate governance could be just the answer.

Let me put it this way. If you are at a cocktail party and you say, "Let me tell you my thoughts on corporate governance," I guarantee you can have the whole plate of hors

d'oeuvres in front of you, because the only person too polite to leave will be the waiter!

But I know there are also many who do care about the issue, including many in this room, and they understand its importance to Canadian business and competitiveness.

It's funny, because while many in the business community are not particularly interested in corporate governance, mention "corporate management," and you are likely to get into a real debate. There are as many views on how best to manage a business, as there are business people and business pundits.

What is the best way to manage a company? Which management style gets the most from its people? Which approaches have produced the best returns?

It's debated at universities. It's discussed in the business press. Go to the bookstore and there are rows and rows of books on it. The best-seller list always seems to contain several books espousing the latest and greatest management theories. Consultants have built an industry around prophesizing about it.

So corporate management is an interesting topic. No—it's a hot topic.

But bring up corporate governance, and your listeners' eyes glaze over. And yet, the two are inextricably linked. They are two sides of the same coin. How a company is managed is a direct reflection of how it is governed. Corporate governance is just another way of saying "oversight of management."

One of the board's prime roles, no doubt its most important role, is to oversee management on behalf of the shareholders. And how the board carries out this function, what the composition of the board is, and how the board interacts with management are matters which have a very material impact on how the management will set its priorities and on how it will perform.

So I understand that it is more interesting to talk about management than it is to discuss governance, but given the link, it is just as important that we get the governance part right.

Now speaking about management, I think everybody instinctively understands and agrees that the manner in which a business is run has a huge impact on how well it performs. And I think people also know there are many different ways to manage, and in fact that different management approaches work better in different situations. It's such common sense that it almost seems trite to say it. In fact, the diversity of management approaches is in itself a part of the business competitive landscape.

Businesses need to compete effectively, or they don't survive. It's obvious to any consumer that companies compete on every dimension and facet of their business. They compete on technology, they compete on product features, they compete on better service models, they compete on quality standards, they compete on pricing, and they compete on distribution models. And on and on.

They also compete on their management approach. The management approach and effectiveness is a key competitive advantage or disadvantage for every business.

The part that is somewhat astonishing to me, therefore, given the direct link between corporate governance and corporate management, is that many groups that are active in corporate governance have seemingly ignored the need for diverse approaches and have instead prescribed a single "best in class" model as the standard for all companies to adopt.

That is certainly true of some in the press, who in some cases have adopted elaborate scorecards with point systems built on a single and detailed notion about what proper corporate governance looks like.

It's true of many of the investor groups that are active measuring and in many cases lobbying public companies

about their governance practices. Many of these have also developed very prescriptive models.

And unfortunately it is also somewhat true of regulators, who have developed regulatory guidelines which prescribe many governance practices for public companies that seem to have been conceived with a narrow set of business circumstances in mind.

I'll give you some specific examples of what I mean in a few minutes, but let me first say that I think that the press, the investor groups and the regulators are right to be focused on corporate governance as an issue.

On the one hand, they are on the right issue because of the importance of corporate governance and its link to management and performance, as I have said.

And on the other hand, the abuses that have clearly existed in a fairly lengthy and well-publicized list of corporate failures and scandals, such as the Enrons and Worldcoms, have meant that for the sake of the integrity and health of the capital markets, greater scrutiny on governance practices was inevitable and appropriate, and some action needed to be taken.

The problem is that the haste with which many of the resulting measures were developed following the scandals meant that they were not all well thought through.

The Sarbanes-Oxley legislation in the U.S. and the equivalent requirements in Canada and other countries are the most notable responses by authorities. The enormous cost of implementing and following these measures has left many wondering whether the additional level of control gained has been worth the effort. And it has left many in management and on boards feeling that a lot of time and energy is being spent making sure the boxes are ticked, rather than focusing on the underlying wellbeing of the business.

The various governance scorecards being used by many investor advocate groups or by the press are another case in point.

Most of the governance scorecards that I have seen provide a very detailed list of presumed governance best practices, and then score the issuer as to how it measures up. There is usually a single best practice in any functional area.

But my point is that there is not a single best way to govern businesses.

To think that the governance practices that are appropriate for a large widely-held public company, like a bank, could be the same as what might be best for an up-and-coming technology company, or say, an industrial company built and controlled by an entrepreneur, is quite simply misguided.

If one wanted to be generous about it, I suppose one could say that these are still early days in relation to these issues, and people are just beginning to think about how to promote higher standards of governance.

Analogous, one might say, to when we first learned how to paint in school. Painting by numbers was a great way to learn, but was rather confining to anyone who had aspirations of becoming a serious painter. Painters need the freedom to create and be different, if they are going to distinguish themselves.

Governance advocates may still be at an early stage in their thinking, but a prescriptive “paint by numbers” approach is going to be very restrictive for many Canadian businesses, and hinder their ability to distinguish themselves.

The models being advocated by the investor groups and the press are of concern, but of even greater concern are some of the measures that have actually found their way into regulatory policy and guidelines.

We at our group, and I know many others, are particularly concerned by the approach taken by the Canadian Securities Administrators (CSA) in their “Corporate Governance Guidelines” issued in 2005. The issue of direc-

tor independence has, in our view, not been well thought through.

The guidelines state that a majority of the members of a board of directors should be independent and that all members of the compensation committee and of the nominating committee should be independent. Very sound thinking and consistent with our own strong beliefs.

The problem is their definition of independent director, and the question of "independent from whom?" They have not only defined independence as "independent from management," which is as it should be, but have also said "independent from a major shareholder."

Now we have a problem.

A board should be made up of members who are primarily independent of management. If their primary role is to oversee management on behalf of the shareholders, it is difficult to see how one would be comfortable with them fulfilling this role if they were not.

But should a board be independent of the shareholders, or more specifically, a major shareholder? How does this make any sense?

Let me use our group as an example.

Power Financial's ownership stake in Great-West Lifeco was worth \$22 billion at year-end. It makes me feel better when I think about its value at year-end, by the way. It's of course down a bit since then, along with markets generally.

Officers of our company, including me, sit on the board of our subsidiary, Great-West Lifeco, as do others affiliated with our group. We have no other relationship with Great-West other than as directors and shareholders.

And let me tell you, we care how Great-West Lifeco does. We are major long-term shareholders, and our interests are in seeing that the shareholders prosper over the long term.

One aspect of our model, and we think a key competitive advantage, is the fact that we can have a group of

officers at our holding companies, namely Power Corporation and Power Financial, whose full-time job it is to focus and become knowledgeable about the affairs of the companies that we are invested in.

We take a long-term approach to building shareholder value in these companies and through the boards and their committees work very diligently to ensure that management is aligned with this objective.

And an important element of our model is control. But our model is directly called into question by the current governance guidelines.

The guidelines, if followed, would prescribe that a majority of the board be independent of the major shareholder. A majority of the nominating committee would be independent of the major shareholder. The compensation committee, a key-board committee with real influence over management, would likewise be majority independent. And the audit committee must be 100-per-cent independent of a major shareholder. The audit committee composition is an absolute requirement, not a guideline.

Advocates of the guidelines say that these are “only guidelines” and that companies with good reasons for not falling in line with them need only state the reasons in their statement of governance practices.

But this misses the point. It overlooks the important reputational issue that is created for companies like us. Because the guidelines do not fit our model, we are made to appear to be “non-compliant” with the guidelines, and are required to explain ourselves. We believe this gives an inappropriate impression to the marketplace. We find this troublesome given that we seek to meet the highest standards of governance practice.

The reality is that guidelines come to be regarded as “best practices.” In fact, shortly after they were published, the TSX referred to them explicitly as best practices.

Consequently, no amount of explanation in a company's Statement of Corporate Governance Practices in its Management Proxy Circular can overcome the inference that it doesn't comply with "best practices." And so the reputational impact spreads.

The governance ratings published by a major business paper assign a substantial weight to board and committee independence. The flawed definition of independence they use is essentially the same as the guidelines. Companies using our governance model are automatically marked down heavily.

The proxy advisory services have also picked up and run with the flawed definition. Over the last few proxy seasons, in several cases we are familiar with, we have seen it aggressively applied by one of the more widely circulated proxy voting advisory services.

As a result, companies are unfairly criticized for low independence levels on boards and board committees, when in fact their boards are overwhelmingly independent of management and committees entirely free from management representatives.

Perhaps you can imagine how incongruous this seems to us when the driving purpose of our carefully considered governance system is to deliver long-term value to all shareholders.

We are not alone in being affected by this flawed definition of independence. In fact over 70 per cent of the top 500 non-financial public companies in Canada have a major shareholder, all of whom could be affected by the guidelines, and around 30 per cent of companies with market caps above \$300 million have a shareholder with a 50-per-cent or greater control position.

The preponderance of companies with a major shareholder is an important attribute of the Canadian economy, to a greater extent than is the case in the U.S. And yet legislation in both the U.S. and in the U.K.

exempts companies with controlling shareholders from their independent director requirements.

It's ironic that our regulators, who have sought to align our regulatory regimes with those of the U.S., have chosen not to emulate this specific U.S. provision given its particular relevance to Canada.

I could and will argue that these rules run contrary to the fundamental rights of shareholders. If you own a majority of the shares of a company you should be able to control the company.

In fact, we would expect that when investors buy shares in the companies that we control, they are aware of our ownership and many may have indeed invested because of our presence.

But I don't have to go that far to make the case. Because the guidelines would prevent the use of an extremely effective method of governance for a large swath of Canadian companies, that in and of itself should be sufficient to re-think them.

There are some who would say that the definition of independence in the CSA guidelines was not an oversight at all, but was in fact intended to force companies, which have a majority shareholder, to have boards with a majority of directors independent of them.

The rationale is that a majority shareholder can take advantage of minority shareholders by engaging in transactions that are not in their interest. The transactions and dealings that were the subject of the Hollinger-related trials would be cited as an example.

I think that the question of "self-dealing" is a legitimate issue for people to be concerned with, but the solution is not to try to weaken the rights of ownership. Not when there are more tailored and effective methods of guarding against abuses.

Within the Power group, we have thought a lot about this issue. We have adopted measures that deal with the potential abuse of "self-dealing" head on, and we think

they could be a model for other companies with a major shareholder to follow. In fact, they could be an alternative model for securities regulators to consider in controlled company situations.

All of our public companies have formed “Related Party and Conduct Review Committees” whose mandate it is to review and approve transactions, if there are any, between the company and its major shareholder or an affiliate of the major shareholder.

These committees are made up of directors who are independent of the majority shareholder, just like the definition that exists in the CSA guidelines.

A real life example within our group might be if our two subsidiaries, Great-West Life and Investors Group, decided to share the purchase of a piece of software so that they both get better terms and save money. The Related Party committees would review the terms of such an arrangement on behalf of each company.

You might say this is a pretty innocuous transaction between the two companies, but because each of Great-West Life and Investors Group, through its public parent IGM, are controlled by Power Financial and each has separate minority shareholders, we think fully independent directors should review the arrangement.

We have worked with Related Party Committees for many years within our insurance companies, initially because they are prescribed by insurance regulation.

In effect, what we are saying, is that for most governance matters, independence should be defined as “independent of management,” not of a major shareholder. But if the major shareholder, or its affiliate, has an interest in a matter that is different from other shareholders, then the matter should be subject to review by directors who are independent of the major shareholder. In our group, we have set up board structures and processes to make this work.

We think the concept is effective, and we have expanded it to all of our public companies.

I am sure one could develop other methods of addressing potential conflicts between a company and a major shareholder, but the use of standing independent Related Party Committees is simple and very effective.

Let me raise a potential unforeseen consequence of the guidelines.

Before I do, let me say that our group cares about corporate governance, not just as an issuer, but as a major investor.

Between their own balance sheet investments and the investments managed as part of their mutual funds and other managed assets, the companies in the Power group manage over \$500 billion of financial assets.

If we, who are already public, find the guidelines restrictive, how will entrepreneurs who may be thinking of going public react to them?

How are public markets going to compete with private equity, for example, if public markets don't allow for an effective controlled company model? As you know, the private equity players typically rely on a control model to carry out their business plans.

Now private equity certainly has its place in capital markets, and can be a positive force for change in a company. As you may know, Power Corporation is active in private equity.

But there can be some negatives associated with private equity. The typical short three-to-five-year investment horizon and the lack of participation by individual investors are two of them. As a matter of public policy, we should be concerned if an increasing number of Canadian companies turned away from public markets and migrated to private equity, simply because we had not been able to devise a system that allowed for controlled public companies with proper safeguards for public minority shareholders.

When it published its Corporate Governance Guidelines in 2005, the Canadian Securities administrators had given themselves one year to study and re-examine the reservations expressed by numerous groups, including ours, about the consequences that the guidelines could have on controlled companies.

The CSA are still considering the definition of an independent director in the case of a controlled public company. We are pleased that they have chosen to take the time needed to properly consider this key issue.

Well there you have it—some fairly simple and straightforward thoughts about corporate governance regulation.

I doubt that I have shaken you to the point where you won't be able to sleep tonight worrying about this issue. But I do hope that I have impressed upon you that this is actually a pretty important issue for Canadian regulators to get right.

If they don't, a large number of Canadian businesses and the capital markets themselves will be impacted, in my view, in a negative manner.

Ladies and gentlemen, I would like to thank the Empire Club of Canada for inviting me here today, and I would like to thank you for your kind attention.

The appreciation of the meeting was expressed by Heather Ferguson, President, The Hearing Foundation of Canada, and Director, The Empire Club of Canada.



June 12, 2008

Stéphane Boisvert

President, Enterprise Group, Bell Canada

THE IT TALENT GAP: ANSWERING CANADA'S GREATEST HUMAN CAPITAL CHALLENGE

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Verity Craig, Managing Director, CV Management, and Director, The Empire Club of Canada; Shubham Datta, Grade 12 Student, Runnymede Collegiate Institute; Grant Kerr, Associate Pastor, St. Paul's United Church, Brampton; Tom O'Neill, Member of the Board of Directors, BCE; Dennis Cote, Vice-President, Telecommunication Services, CIBC; Tim Reid, Director, Business Development, ZED Financial Partners, and Director, The Empire Club of Canada; Francois Morin, Chief of Staff, Enterprise Group, Bell Canada; and Mario Bélanger, President, Avaya Canada.

Introduction by Catherine Swift

Throughout our history, the Canadian economy has had a competitive advantage over many countries because Canada has always had a relatively highly educated population and has been able to fill many of our skills gaps by immigration. More recently, there has been much discussion in Canada and in other developed

countries on worsening labour shortages in many sectors of the economy, and the fact that they will be only getting worse in the future as a result of demographic trends. Although these shortages exist in virtually all sectors, they are definitely more acute in some industries, and the likelihood of being able to rely on immigration as we have in the past is much reduced as nations around the world compete for immigrants with the most desirable skill sets. One of the sectors in Canada experiencing some of the worst problems is the information technology sector. And considering the fact that information technology underpins just about everything in our modern economy, this is a very serious situation.

Our speaker today will address the growing IT talent gap, and what we can do about it. Stéphane Boivert is the President of Bell Enterprise Group. His career in technology began in 1985 when he worked for IBM as a commercial accounts manager. In 2002, Sun Microsystems offered Stéphane the challenge of turning around the corporation's activities in Canada. In only three years, he completely revamped the operations of the Canadian division and moved it from fourteenth to first place in terms of profitability and earnings growth. In 2005, he moved to California to lead a specialized Sun Microsystems group dedicated to the integration of international acquisitions. In August 2006, Mr. Boivert was named President of Bell Canada's Enterprise group. In this position, he is responsible for leveraging the group's market value proposition and maximizing financial performance. He currently sits on the Board of Directors of Wellspring, an organization dedicated to offering support to cancer victims with numerous centres in Ontario. He is also on the Boards of the Montreal Heart Institute Foundation and the Fondation de l'Hôpital Sainte-Justine. In 2000, he was named to Canada's prestigious "Top 40 under 40" list of successful business people.

Please join me in welcoming Stéphane Boivert.

Stéphane Boivert

Thank you for that warm welcome and good afternoon to all of you. Also, thank you to the Empire Club for providing Bell one of Canada's great platforms for the discussion of important issues facing our nation. I am here today to talk to you about one of those "important issues" about technology and especially about the talent required that makes technology a vital part of our national economy.

A few weeks ago the Institute for Competitiveness and Prosperity's Report on Canada 2008 pointed to the need for investing in both technology and people as a major foundation of Canada's long-term prosperity.

They are right on the money. Competing in the global economy means continuous innovation, especially in information and communications technologies, or ICT. Those technologies rely on highly trained people who create them, run them and push them into new areas of economic life. When companies, sectors and countries are strong in both information technology and the talent to put technology to work, there is no end to what they can do.

We've got the technology. Getting the talent is the problem.

We have, in fact, a wide and growing IT talent gap. It is serious. In some sectors, talent shortages are becoming emergencies. In other sectors, that emergency is a storm cloud on the horizon. If this crisis is not addressed and addressed now, we will pay a substantial economic price.

The evidence adds up to one conclusion: this IT talent gap represents Canada's greatest human capital challenge. I know that is a bold claim, but the evidence is conclusive.

I have spent my professional life in IT and I believe that the situation facing Canada today has never been more serious than the one we are facing today.

Part of what makes this human capital challenge Canada's greatest one is because it cuts across individual, company and public interests. The IT talent gap is about hundreds of thousands of career choices. It is about Canadian companies and their ability to hire top IT talent to grow and innovate. And it is about policy. Networks of education, information systems, training and innovation are all at play here. In fact, everything I will say today involves these elements in one way or another.

In other words, how we confront the IT talent gap challenge will tell us a lot about how we educate, motivate and innovate; how we create good policy frameworks and policy environments; and how we connect, collaborate and compete.

That challenge—and how we are answering it—is the subject of my talk today.

The first question is “Why”—Why is the IT Talent gap so urgent?

The main reason is simple. IT systems and IT work have been integrated into almost every economic activity.

Canada’s 605,000 IT professionals work in the most mission-critical, technology-intensive sectors of our economic life: in the professional, scientific and technical services; in manufacturing and public administration; in information and cultural industries; in finance and insurance. They are electrical, electronics and software engineers. They are the analysts, programmers and technicians, operators, designers and testers.

And the really sad and alarming fact is they are an endangered species.

The most serious facts are spelled out in the Conference Board’s 2008 study on Canada’s IT skills gap called “Securing Our Future.” The study predicts that the demand for IT worker positions will reach—at least—89,000 in the next three to five years—a demand that will be very difficult, if not impossible, to meet. The total cost of not filling those positions would surpass \$10 billion (\$10.6 billion). Looking beyond 2012, the critical under-supply of IT talent will only get worse.

Canadian companies cannot keep fielding teams short of key players in key positions.

The second question is, “How did we get here?”

There are a few reasons. An aging population is one. The baby boomer retirement wave is also beginning to affect the entire labour force. For many reasons we are

just not convincing enough women and skilled immigrants to enter the IT field, to our great cost.

A more specific factor is the flight from information technology occupations. The technology bust of 2000 and story after story of companies offshoring their IT—whether real or perceived—have had a negative psychological impact on IT career choices.

The heart of the problem is education, and specifically, career choices. That's where this human capital challenge begins and that's where it must be solved. The situation is depressing: enrolments are declining in technology-based subjects in secondary school. We see the consequences in universities and colleges.

The numbers are shocking. One recent independent survey of computer science enrolment in Canadian universities reveals Ontario is down about 50 per cent in computer science enrolments from 2001 highs—from 12,510 to 5,817. The rest of the provinces are down by 30 to 40 per cent.

But the root of the problem is not at the university level. It's at the secondary and even at the primary level. The problem lies in attracting interest in the STEM areas—science, technology, engineering and mathematics. That pipeline needs to be bigger and better than it is.

With other labour shortages, an economic downturn usually makes the problem go away. The IT talent gap is very different. It seems to be recession-proof. It is larger than the ups and downs of any hiring or economic cycle. And it is international in scope. All we have to do is look to the States to see what I mean. The American economy is wrestling with a weak housing market and record oil prices, yet demand for IT workers is on the rise in a number of key areas. The situation is forcing employers into serious competition for talent.

So what is Canada putting at risk as this talent gap widens?

The first thing we're putting at risk is our innovative capacity. Canada's ICT sector represents 32,000 firms, generates over half a million jobs (572,107) and \$149 billion in revenue. Human capital is the deepest source of our innovative capacity. Our IT workers generate knowledge and apply valuable hands-on capabilities.

The second thing we're risking is both short- and long-term economic growth. Failing to take measures to increase the supply of IT workers will cost us dearly. According to the Conference Board of Canada, every single IT job that goes unfilled costs the economy on average over \$119,000 (\$119,335). The Conference Board calculates it costs the Canadian economy on average just over \$119,000 (\$119,335) for every single IT job that goes unfilled.

Third, we are risking losing the productivity race. Skilled IT workers are crucial to our national productivity goals—workers who can adapt quickly to changing circumstances, workers who achieve breakthroughs and improvements in products and processes, and workers who can help make entire companies more effective and efficient. For Canada, a 1-per-cent improvement in our productivity performance would increase our standard of living by \$14,000 per person.

Large, advanced metropolitan economies have the most to lose. This is especially true for the six stars in our national technological universe: Montreal and Ottawa; Toronto and Kitchener-Waterloo; Calgary and Vancouver. Each city will have different challenges, but the shortages add up to a significant problem for all.

Let me give you one Toronto example. Some of the best companies in the financial-services sector here in the city have long realized how important IT is as a strategic enabler. These days, there is plenty going on in IT. In insurance alone, for example, there are several trends making IT a growth area. For example, there has been a real growth in affinity relationships, where insurers pack-

age their services under big brand names such as retailers, and need to provide a range of front-office systems to partners. The IT skills gap will affect them all.

The evidence of just how serious this issue is for Canadian companies is becoming clear. As part of our focus on the IT skills shortage, Bell commissioned the Conference Board to continue their related research into some of Canada's largest enterprises, representing a cross-section of economic activity in this country. CN, the Bank of Montreal, Nortel, Pratt & Whitney Canada, Canadian Tire and Hydro-Québec are just a few.

A lot of that research is confirmation of what we were both seeing and experiencing. The evidence from retail to financial services to aerospace to hydroelectric power all points in one direction: information and communications technologies are not just about e-mails and billing systems; they have become strategic enablers. They help companies define and enhance value for customers.

That's why our IT labour shortage is such a challenge.

Canada is not alone facing this problem. The IT worker shortage is an international phenomenon. A study published recently in the U.K. showed that 90 per cent of 14 and 15 year-olds know little or nothing about engineering or technology careers. Engineering, in fact, fails to make the top-10 career choices, ranking behind a professional sports career and even hotel management.

Good news for Manchester United and The Savoy, bad news for Microsoft and Hewlett Packard!

This is the same generation in Europe and especially in North America who can point and click virtually out of the womb. They "SMS" half an hour after they have learned their ABCs. They are enthusiastic participants in Facebook by seven or eight years old and carry at least half a dozen portable digital devices on them at all times. They are on the Net early and often. It reminds me of the New Yorker cartoon where two worried parents tell their five-year old, "It's important that you try very, very hard

to remember where you electronically transferred Mommy and Daddy's assets."

Young people really are voracious consumers of technology. Bell's focus group studies show that young people are also creators. On weekends, many work on building Web sites. Others put together wireless SMS networks between large numbers of friends. Most young people in fact have an instinctive feel for technology. The problem is that they show little desire to pursue a career in the industry that creates so much of their world. It's a Canadian problem, an American problem, and a European problem.

Business and government decision makers in a range of countries are taking notice. They are also taking action. In the United Kingdom, a not-for-profit, employer-led organization called "e-skills UK" is bringing together employers, educators and government to address together the technology-related challenges no one party can solve on its own. Its mission is very simple: to ensure the U.K. has the skills it needs to compete in the global economy. It executes its mission by focusing on the key players in this challenge—the elementary and secondary schools, universities and colleges, and employers and enterprises of all sizes.

The United States has acted with determination to protect its advantage in information technology by launching a 21st century work force initiative that targets the ICT skills gap. The American administration has also established the Office of Workforce Investment that provides leadership, guidance and technical assistance to youth and adults. Several important research and industry organizations have also turned their attention to this increasingly serious issue.

The IT talent gap issue has even caught the attention of the presidential contenders Senators McCain and Obama. Each has outlined plans to increase work force development funding and information technology job

retraining. Yes, it IS a presidential election year, but it's good to know some things can command bi-partisan support in the US!

There are two possible answers to the IT skills crisis for Canadian enterprise. First, they could move their IT needs beyond our shores. Second, we can invest in our people and our future here in Canada. It's a choice between moving out or stepping up.

The first solution—for Canadian enterprise to “off-shore” their IT needs—has been made possible by communication channels and collaboration, but seriously, I ask you, ‘Is this any kind of viable medium or long-term solution?’

Let's take the example of a CIO. He could have his data centre here but outsource the management to a group located in Brazil while the call centre applications could be in India or the Philippines. I guarantee that we will see a lot more of that soon if we don't act now.

Undeniably, the “Leave Canada” solution comes at a very high price: the loss of Canada's global competitiveness; a de-skilling of our work force; and permanent foreclosure on thousands of high-paying jobs. When you consider that today the average IT worker earns over \$56,000—45-per-cent more than the average earning for all workers in Canada—and ICT salaries are around \$85,000, you begin to get the idea of what we stand to lose in terms of individual careers and work force development.

What kind of labour pool do Canadian enterprises find when they leave Canada? I will give you a hint. Consider that in 2004 India awarded 139,000 undergraduate degrees in engineering, computer science and information technology. China awarded 361,270. The US: 137,437. Canada: 28,542. These numbers represent a tremendous offshore challenge for the U.S. and Canada.

Faced with all this evidence, the question I asked myself one year ago was, “Does Canadian enterprise have

what it takes to join together and rise to the challenge?"

The answer of Canadian enterprise was a resounding "YES."

YES to collaboration to confront this great human capital challenge.

YES to a national co-ordinated effort.

YES to securing the future human capital capacity that professional IT workers represent.

That positive response has taken a specific form and purpose. With Bell Canada taking the lead, we established The Canadian Coalition for Tomorrow's IT Skills. It is a national coalition of Canadian partners working towards finding solutions. Our name reflects our overall goal: securing Canada's future pipeline for professional, high-quality IT talent. The coalition's success will be determined by how well Canada is able to turn the tide of the professional IT shortage, and reverse the flow of outsourcing of these important, high-paying jobs beyond our borders.

Of course, the offshore labour option will remain strategic options at the enterprise level. But this coalition believes we also have the resources and the capacity to confront and overcome this shortage here at home.

The coalition's goals are something that all Canadians can share. The coalition's success will be something from which all Canadians will benefit.

The early success of the coalition has been beyond our greatest expectations. The enthusiasm for its work comes from every corner of Canadian enterprise.

This new national coalition focuses on three major areas. One: raising the profile of IT and IT career choices among young people, with a specific goal to increase enrolments in IT-related university programs. Two: generating public awareness of the importance of IT to Canada, and the outstanding contribution information technology makes to our prosperity and our competitiveness as a nation. Three: encouraging government immigration poli-

cies that answer the present and future needs of Canadian enterprise.

Some of Canada's largest and most dynamic enterprises have joined the coalition. I mentioned some of them earlier—CGI, the Bank of Montreal, and CN. Rogers Communications, Nortel Networks and IBM Canada are also on board. Smaller, niche companies on the technological front line like Richmond Hill's Computer Talk are also represented. Some of us are partners, others are market rivals. But everybody knows that this is a serious problem that demands a single, coherent and effective response. In fact, the coalition is now over 60 companies strong and represents some of the leaders in their sectors. Universities and associations have also joined the coalition to take up this challenge.

The coalition's strategy rests on several major initiatives. The foundation of our work began with studies and research. If we can measure it, we can improve it. With our partners at the Conference Board of Canada, we have sponsored the first major study of its kind in the field called "Securing Our Future." A second phase of the research will involve a national dialogue with 1,000 grade nine and 10 students regarding their perspectives on IT careers, in-person interviews, telephone interviews and surveys. The simple fact is that to keep competitive in STEM—science, technology, engineering and mathematics—we need to start early. That doesn't mean six year olds will all have mandatory Blackberry training, but it does mean that we need to focus on kids as they begin to make choices.

The Conference Board is also working on three models of excellence that will target the problem systematically: Model One—Attracting and Retaining Immigrants; Model Two—Integrating Internationally Educated Professionals into the Workplace; and Model Three—Developing Career Paths for Youth. All three are needed in confronting this challenge.

The coalition also focuses on making our case with governments. As with any national challenge, public policy can provide the essential framework—the stimulus and the strategic direction. That’s especially true for the IT talent gap as it intersects such government responsibilities as immigration, human resources, education, economic development and industry.

A third major group of initiatives focus on mounting media relations campaigns, Internet-intensive projects and special television broadcast and webcast programming to create awareness, encourage action and promote ICT careers among the relevant key target audiences.

That’s a lot, but it’s only the beginning. Successful change also demands a hands-on, grass-roots approach. That’s why we are mobilizing the employees of coalition members to fan out across the country’s schools and talk about the exciting possibilities of a career in information and communications technology. We are developing a wide range of relevant materials dealing with everything from the world of innovation to job and career path information. These coalition ambassadors will be matched with local schools and classrooms and just talking about ICT, their personal career experience and answering questions—simple but effective.

We are also opening up our companies to students so they can see our R&D and high-tech facilities. There, they will get an eye-witness account of the many vital roles that information and communications technology professionals play in the 21st century corporation. We are also actively exploring developing an ICT internship program as well.

The coalition is also proposing a remarkable new initiative: opening the corporate labs of coalition members to IT students on nights and weekends. That goes for IT students in high schools as well as universities and colleges. If you have any experience with companies you know this is like a bank opening up its vault!

The Lab Sharing Program offers facilities and resources not normally available to IT students. High schools and universities often have a hard time keeping up with the latest in technology. It changes quickly, and both funding and teaching expertise are frequently in short supply. Coalition members are stepping up to remove those obstacles standing in front of a potential IT career path.

These initiatives represent an impressive measure of the coalition commitment to answering this national human capital challenge.

The coalition will succeed when we see a few things happen: increases in university enrolments in ICT-related programs; increases in foreign ICT students graduating and working in Canada; increases in ICT-graduate immigrants working in the field in Canada, and increases in the number of filled ICT positions. We are also measuring ourselves on increased positive perception of young people regarding ICT careers.

These are ambitious goals, but this coalition is putting them within our reach.

Friends, as I hope I have shown, the IT talent gap is today Canada's greatest human capital challenge. That challenge demands something of all of us.

From enterprises, it demands leadership, collaboration and action.

From governments, it calls for policies that strategically align with the demands of a 21st century economy—from education to immigration.

From IT professionals, this challenge demands you to do your part to get involved, to inspire and to motivate.

I believe passionately in this cause because I believe that securing Canada's economic future is worth fighting for. It is a tough fight and it will be a long fight. Judging from the response and the growth of the coalition, Canadian enterprise is up to the challenge, answering with determination and a belief in our desire to change things for the better.

To me, the coalition's excellent beginnings show that Canadians can come together united in service not just to our individual companies, but to the common good. When we really hit our stride, and we will, there will be no stopping us. We won't just close that IT talent gap. We will allow our country to excel in the global economy and make sure Canada's best years are still ahead of us.

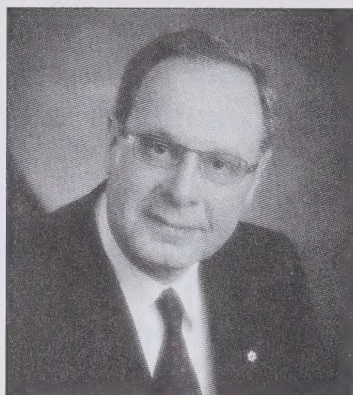
Let me leave you with a thought. When the Empire Club of Canada was being born over a century ago, in 1903, the young Dominion of Canada was facing a great human capital challenge of its own: how was it going to take advantage of the new technology of what historians call the Second Industrial Revolution? The institutions and enterprises of Ontario and Quebec needed to educate, train and deploy a remarkable number of engineers to take full advantage of the surge of technological developments in heavy industry—aluminium, hydroelectricity and electro-chemical processes. They rose to the challenge and built some of the world's greatest companies in those sectors.

One hundred years later, we are in the middle of another technological revolution. Today, it's not heavy industry but the knowledge/information economy that is calling us. Today, it is IT workers and their skills taking centre stage. Canada's IT future will depend on two things: leading-edge technology and the people who can transform that technology into strategic advantage—at the enterprise level and at the national level.

Meeting that challenge is our debt to the future. It is also the only way we can turn Canada's greatest human capital challenge into a human capital advantage.

Thank you.

The appreciation of the meeting was expressed by Tim Reid, Director, Business Development, ZED Financial Partners, and Director, The Empire Club of Canada.



June 18, 2008

A joint meeting of The
Empire Club of Canada and
The Royal Commonwealth
Society

Frank O'Dea

President and CEO, Arxx Building Products, Inc.

HOPE, VISION AND ACTION

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Peter K. Large, QC, Barrister and Solicitor, and Immediate Past Chairman, The Royal Commonwealth Society of Canada, Toronto Branch; Kim Wolfe, Anthropology Student, University of Toronto; Reverend Bill Middleton, Minister, Armour Heights Presbyterian Church; Julie Lindhout, President, The Atlantic Council of Canada, and Principal, Lindhout Associates Education Consulting; Larry Stout, Broadcast Journalist, and Honorary Director, The Empire Club of Canada; Nabarun Chaudhuri, President, Aithent Canada Inc.; The Hon. Sinclair Stevens, Chairman, The Royal Commonwealth Society Foundation, Chairman, Planet Today, and Former Cabinet Minister, Government of Canada; Edward Badovinac, CET, KH, CLJ, Retired Professor, George Brown College, Vice-Chairman, The Royal Commonwealth Society of Canada, Toronto Branch, and Director, The Empire Club of Canada; C. Warren Goldring, Co-Founder and Honorary Chairman, AGF Management Limited, and Founding Director and Co-Chairman, Operation Dialogue; Dr. Charles Mayenga, Co-ordinator, Student Essay Contest, Royal Commonwealth Society, and Senior Consultant, Assessment Strategies Inc.; and Catherine S. Swift, President, The Empire Club of

Canada, and President and CEO, Canadian Federation of Independent Business.

Introduction by Arthur Downes, Retired Justice of the Peace in and for the Province of Ontario and Chairman, The Royal Commonwealth Society of Canada, Toronto Branch

As a young man, Frank O'Dea was a homeless person, living on the streets, panhandling for nickels and dimes. Today, he is a celebrated business person. He is President and CEO of ARXX Green Building Systems and is a founder of a number of other successful businesses including Proshred Security and Second Cup.

In addition to that, he was the founding chairperson for War Child Canada, is cofounder of Street Kids International, and is a founder of the Canadian Landmine Foundation.

Recognition for putting his entrepreneurial spirit to work for the public good has come from many areas. Frank has received two honorary university degrees and has been invested as an Officer of the Order of Canada.

This incredibly inspiring story of resilience and triumph in the face of adversity is retold in his newly released, best-selling memoir "When All You Have Is Hope."

Ladies and gentlemen, I am pleased to introduce to you a man who has shown that we really can make a difference, a man who is a nationally recognized advocate for hope.

Please welcome Mr. Frank O'Dea.

Frank O'Dea

Thank you very much Arthur and thank you head table guests. I'm delighted to be here with you today and I'm particularly delighted, if I may go off my remarks for a moment, to see Sinc Stevens here. I haven't seen him in many, many years. It is nice to see him and I think he is the epitome of grace under pressure so it is nice to see you again sir.

Ladies and gentlemen, it is a particular delight to be here at the Royal York in Toronto with the Empire Club and the Royal Commonwealth Society. It is a great honour indeed given who has spoken before me.

Thirty-plus years ago I found myself standing just a short walk from here at the corner of Shuter and Jarvis

Streets. Everything I owned was on my back. I had an old T-shirt, a pair of jeans, a blue coat that had turned green, a pair of running shoes and a day in my life was made up of going over to Yonge Street and pan-handling to get 99 cents. Two other guys and I worked the street. We would get 99 cents and then go to a local wine store to buy a bottle of wine. We would go back to the alleyway beside the flophouse in which we were living and I can recall the conversation as if it were yesterday. Tomorrow I will quit drinking. Tomorrow I will get a job. Tomorrow I will call my family. Tomorrow. Tomorrow. Tomorrow. Tomorrow didn't come and we would go back to Yonge Street. At the end of the day we had to make the most important decision of the day. Would we sleep indoors or sleep on a park bench? The rule in the flophouse was that you tied your shoelaces around your ankle. Otherwise the first guy up got the best pair of shoes. It was a lonely, dirty, and sometimes violent existence.

Contrast that, if you will, to standing on the red carpet just a few years ago, a citation being read, and surrounded by family, friends, and other recipients. Her Excellency, Ms. Clarkson, awarded me the Order of Canada.

And fast forward to today here at the Royal York with the Empire Club and the Royal Commonwealth Society.

How does one go from skid row to here, this wonderful meeting?

I suggest to you three words sum it up: hope, vision and action.

You see I believe that without hope you can have no vision. But a vision is merely a dream without taking the action.

I would like to start with a story and the hero of my story is always George so we will use George. It turned out that George was in very difficult shape. It was the 1930s. He lived in New York. He had lost his job and he had found himself on the Bowery. At the end of two days

without eating, things had become very desperate. That evening, as luck would have it, a guy came by and told George about a job that he might be able to get. It turned out there was a small church around the corner that was looking for a bookkeeper. So the very next morning George went and rapped on the door. The pastor came to the door.

George said, "I understand you are looking for a bookkeeper."

The pastor said, "Yes, what are your qualifications?"

He said, "I don't have any qualifications. I can't even read or write. I thought just perhaps there might be something else I could do because I haven't eaten in two days and perhaps I could just earn enough to get something to eat."

The pastor said, "We are very, very poor. I'm sorry we don't have anything else for you to do and we couldn't afford to pay you in any event." He was just about to close the door but said, "Just a moment." He went back into the kitchen and came out and gave George an apple. He said, "I don't have a job but at least here is something to eat."

George went to the corner of the street and he was just about to take a bite out of the apple when a guy in a suit went by and said, "I will give you a dime for that apple." Now in the 1930s a dime was a lot of money and George was very hungry, but he looked at it and he made the exchange. He got about half way down the block when he saw a sign in the window: two apples for a dime. He became an instant entrepreneur. He went back to the corner and he was selling apples and going back and forth and after a while he had a stand on the corner and he was back and forth. Then he had stores, then he franchised, and then he had apple orchards and then he moved to Los Angeles and he had one of these wonderful offices on top of one of the great buildings in Los Angeles. He had just had an executive committee meeting.

He was thinking about his life with his feet up on the desk when he thought his was quite a story. Somebody ought to write a book. Well he lived in Los Angeles so he called a famous author.

The author came in and he told him the story and the author said, "You tell that so well George. Why don't you write your own book?"

George looked at him and said, "You don't understand. I don't read or write."

The writer said, "Imagine if you had gone on to high school, college and university, what might have become of you?" "I would be a bookkeeper in a broken down church."

We all have our stories.

I quit drinking in 1971. One thing and another led me to Oakville, Ontario. Business took me along and then through a set of circumstances I created "The Second Cup." The first store was a disaster. We didn't have a bookkeeper so we didn't know that and we opened two more stores. We lost money even quicker. We lost a lot of money. We grew our business however by solving some of those problems and I can remember opening the seventh store. We were offered the seventh store just right here in the Eaton's Centre. We had a store in the Eaton's Centre, phase one. We were offered a new location in phase two.

Our banker who will remain anonymous had a bank branch in that shopping centre. We needed to borrow some money so we went to see that banker and we said, "We just need a little bit of money to complete the construction of the seventh store."

He looked at us and said, "With six stores you have saturated the market for coffee stores in North America."

I meant to speak about hope, vision, and action. This was a case of no vision. This bank will remain anonymous. It does, however, have a green sign.

I need to keep my remarks short and I want to talk about vision in this country. Before I do, I will tell you a brief story about two guys meeting on an airplane. I was flying to Florida. I left Toronto, got on the airplane and realized I had nothing to read. Before long I began chatting to a guy sitting beside me serendipitously. It turned out his name was Peter Dalglish. Peter hailed from London, Ontario; he was working in the Sudan in the city of Khartoum. He was working for UNICEF, working with children, and it turned out that there were 10,000 kids on the street. They had a slogan that translated into English "my mother the street." His job was to find anything he could to help these children and he went to the U.S. embassy at one point and borrowed an old Tom and Jerry cartoon and one of those reel-to-reel movie projectors. He brought the projector back to this little shack, where there were maybe a dozen kids, and showed them the movie. The kids didn't speak English but they were mesmerized by the animation. They saw it over and over. The next night 100 kids showed up and the next night 1,000 kids.

He went on to tell me the World Health Organization was testing kids for serious diseases. It turned out that 21 per cent were HIV positive. Kids were dying of AIDS. The idea that came to us on the airplane was to make an animated film to capture kids' attention and deliver a health message. It had never been done before. To make a very short story out of a very long one, we came back, created Street Kids International, and made a film. We took it to Geneva to show the World Health Organization. They were having a symposium and they asked us to come. We decided we would just simply let the film speak for itself. We turned off the lights and turned on the film. At the end of 23 minutes you could hear a pin drop. The film was a benchmark for teaching kids about serious subjects for the 21st century. Forty million kids were targeted to see

that film. Don't tell me you can't change the world. Two guys met on an airplane. Kids will live.

We live in a fabulous country, arguably the best country in the world. We have every obligation and every opportunity to do what we can. I recall going to Sierra Leone. I went there as the Chairman of War Child. Mr. Named Foday Sanko was the Opposition Leader in Sierra Leone. He had lost the last election and in that election the slogan of the winning party was "The future is in your hands." Mr. Sanko went around with his thugs chopping people's hands off. I met a woman carrying her niece who was at the time three years old. Eighteen months before, her arm had been chopped off. This was terrorism at its worst. Man's inhumanity to man. I've seen horrible things with land mines and War Child and kids. I've seen the worst but I've seen also the best.

I've seen politicians like Mr. Stevens and others around the globe, people working just like you and I trying to create a better society all over the world. It is a remarkable place, this world of ours, and I have had the great fortune of seeing it all.

The question I have today though about Canada and its politics, given the closeness to Canada Day, is: "Where is the vision?"

What are our politicians talking about today? Where is the John A. Macdonald talking about a railway across the country? Do you think that was easy? Do you think there was no opposition? Of course there was.

Who will forget the debates between Mulroney and Turner over Free Trade and when we think about Pierre Trudeau and his just society, whether you agree or not, he had a great vision where people could come together. Mulroney with GST and Free Trade has changed the dynamics of this country. Mr. Chretien made a determination never to see a deficit again and on the international stage created the world accord and the landmine treaty for which I am very familiar.

Those were great visions. What are we talking about today? Julie Couillard's cleavage. Where is the vision? All of our politicians are busy tinkering with the mechanics of politics rather than articulating a vision where we Canadians can follow. Where is that person? I challenge today our leadership to find a vision and articulate it. It won't please everybody and won't be easy, but I think Canadians will follow. Canadians want to follow. Canadians want to create. Canadians want to create a better society. Where is that leadership?

I look forward to the next election. I hope one of the leaders will have a clear vision of where they want this country to be at the end of the 21st century. Where will we be? What can we do? God knows the globe is in trouble. There are many challenges. Canada often has taken a forefront leadership role in many issues in the past. Why can't we do it today?

As I have said, I have travelled the world. I've seen great horrors and great successes. When I come back to this country, I feel we need to be very, very grateful for this country. This country has afforded me great opportunity, but with that opportunity comes the obligation to give back. Many of us are here simply as an accident of birth. We got lucky.

In Sierra Leone the average income is \$324 a year. When I came back from Sierra Leone, my wife said to me that I had changed and I think I had. I understood family much better. I understood the country and the value of this country and the values that Canadians represent. I had changed and I had become grateful. I was fortunate enough to see it. Not all of us can do that.

It was the end of October and our kids were very young. I took them out at Halloween and they were chasing across people's lawns and knocking on doors and getting candies. There are lots of places in this world where that's not possible.

Two and half years ago we had an election. We changed governments. Nobody was shot. That is a remarkable thing. In many countries, that is impossible. We have much to be grateful for. So I challenge our politicians once again. Where is the vision? Where will we be? How will we make this country a better place for our kids and our grandkids?

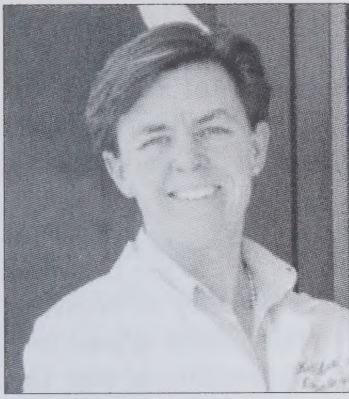
At the end of the day I think Desiderata says it best when it says, "Beyond a wholesome discipline be gentle with yourself. You are a child of the universe, no less than the trees and the stars; you have a right to be here. And whether or not it is clear to you, no doubt the universe is unfolding as it should. Therefore be at peace with God, whatever you conceive Him to be, and whatever your labours and aspirations, in the noisy confusion of life keep peace with your soul. With all its sham, drudgery and broken dreams, it is still a beautiful world. Be careful. Strive to be happy."

And on this Canada Day that is coming up in a few short days, let us always reflect on what we might be able to do for our country, our community, our family and for the world. God bless you. Thanks very much.

The appreciation of the meeting was expressed by Catherine S. Swift, President, The Empire Club of Canada, and President and CEO, Canadian Federation of Independent Business.



Jocelyn Badovinac, Honorary Director and Archivist, The Empire Club of Canada, Buzz Hargrove, President, Canadian Auto Workers, and Edward Badovinac, Director, The Empire Club of Canada.



June 24, 2008

Dr. K. Kellie Leitch

Advisor, Healthy Children and Youth, Health Canada

HEALTHIER CANADIAN CHILDREN

Chairman: **Catherine S. Swift**

President, The Empire Club of Canada

Head Table Guests

Sylvia Morawetz, Principal, S.A.M. Solutions, Treasurer, Canadian Alliance for Children's Healthcare, and Director, The Empire Club of Canada; Kevin Bailey, Grade 12 Student, Danforth Collegiate and Technical Institute; Reverend Canon Philip R. Bristow, Senior Pastor, St. Philip's On-the-Hill Anglican Church, Unionville; Pam Jolliffe, President, Boys and Girls Club of Canada; Mary-Jo Haddad, President and CEO, Hospital for Sick Children; The Hon. Hugh Segal, CM, BA, Senator, The Senate of Canada; Stephen Hewitt, Manager, Corporate and Public Affairs, TD Bank Financial Group, and Director, The Empire Club of Canada; Professor Judy Finlay, School of Child and Youth Care, Ryerson University; and David Moran, Director of Communications, Coca-Cola Canada.

Introduction by Catherine Swift

Although every era has its challenges, it is arguable that our current crop of children and youth are facing different issues than we faced when we were growing up. Technological change has led to an amazingly interconnected group of young people which has its positives, but also exposes them to such threats as different as online predators, obesity from sitting in front of a screen many

hours a day and bombardment by information that is often not appropriate for children or young adults. The traditional family unit is not what it used to be, which imposes different stresses on children. And the reality of two working parents in the vast majority of households, and our overall fast-moving pace of life also imposes pressures on youth.

Our speaker today will be speaking about "Creating a Healthy Environment for Canada's Children and Youth." Dr. Kellie Leitch is currently Assistant Professor of Surgery, University of Western Ontario, with the specialty of Paediatric Orthopaedics, and is a consultant at the London Health Sciences Centre. She is also the Chair of the Health Sector MBA program at the Richard Ivey School of Business at the University of Western Ontario and Chair of the Division of Paediatric Surgery, Children's Hospital of Western Ontario/Schulich School of Medicine. Recently, she chaired the Expert Panel on the Children's Fitness Tax Credit for Finance Canada.

In March 2007, Dr. Leitch was appointed the new Federal Advisor on Healthy Children and Youth for the Government of Canada. Her report entitled "Reaching for the Top: A Report by the Federal Advisor on Healthy Children and Youth" was released in March 2008.

Dr. Leitch was awarded "Canada's Top 40 under 40" in 2005, and in November of 2005 was named one of Canada's 100 most powerful women. She publishes both in the clinical and the best practice model areas of the health-care field.

Please join me in welcoming Dr. Kellie Leitch.

Kellie Leitch

Thank you. And let me thank all of you for providing me with the opportunity to speak with you at the Empire Club today.

Now if I speak too quickly you'll have to forgive me. I don't spend a lot of time speaking to large groups of people. I usually just have two other people with me—one who is under anaesthetic and another who wishes he was.

It was a great honour to serve the federal government as its Advisor on Healthy Children and Youth.

It was last spring that the Honourable Minister of Health Tony Clement asked me to provide advice to the

government on how to help improve the health of Canada's children and youth.

I was asked to provide recommendations in three main areas:

- First, to assess the efficacy of existing federal government programs;
- Second, to offer recommendations for new strategic directions;
- And third, to offer an opinion regarding the establishment of an office that would advise the federal government on the health of children and youth.

When I began this process, I thought that I knew a great deal indeed about the impact of children's health policies, and the determinants of health for Canadian children. Well, it turns out that what I knew then barely scratched the surface. What I know now is that while Canada has a tremendous opportunity to be a world leader when it comes to the health and wellness of children and youth, we've got a significant amount of work to do.

Good public policy is not about ignoring issues when they exist. Good public policy is about finding out what's really going on, and then taking action to address the root causes of issues. So I want to commend the federal government for having the foresight and the courage to ask me to find the truth, to understand what is really happening when it comes to our young people's health, and to do something about it.

The Minister of Health has already taken steps to improve the health of Canadian children through banning toxic products for children and youth.

Getting the chance to help shape public policy when it comes to the health of Canadian children is both an honour and a privilege. It is also something that I take very seriously. And that's because of my day job.

I am a paediatric orthopaedic surgeon and almost every day that I am in my clinic, or in the operating room,

I see children who simply shouldn't be there—children who have been injured unnecessarily, children who have suffered from poor nutrition and a sedentary lifestyle, and are experiencing the initial, often life-changing, stages of obesity, and children whose chronic disease challenges are overwhelming. When you see these children every day, it cannot help but get to you.

That's why I wanted to have a broader impact. That's why I was so pleased to have the opportunity to serve. And that's why I wrote my report, "Reaching for the Top," which contains a total of 95 recommendations on how to help children to be healthier, so they can live better, happier, and more productive lives.

But the report is more than just recommendations. It is a reflection of what Canadian parents spoke to me about—what their concerns are for their children. It's about giving every child an opportunity to achieve the same health outcomes, no matter what background they are from, no matter where in Canada they grow up.

In writing this report, I travelled to every single province and territory—meeting with over 750 people. I reviewed over 500 documents and reports and received over 7,000 comments and suggestions through our online survey.

What I learned was that getting the health and wellness for our children right is an absolutely essential ingredient to the success of our country.

Nations like India, China, and others in Southeast Asia and Eastern Europe are investing tremendously in health care and education for their children and youth. They're investing because they get that the number one source of long-term sustainable competitive advantage of their nations is to invest heavily in the health, education and training of their young people.

In Canada, we must take a similar perspective, not only because it is good social policy to invest in the health of children, but because it is also good economic policy. We

need to invest in the health and wellness of our children and youth in the same way that we invest in infrastructure, or science and technology. They are our future and they are fundamental to our nation's economic success in an increasingly competitive world.

I want Canada to be the number-one place in the world for a child to grow up in from a health perspective. We have a way to go to meet that goal, but there's no reason why we can't get there. We have the resources and the wherewithal to succeed, but as I stated in my report, Canada has significant opportunity for improvement.

For a nation that prides itself on being prosperous, generous, and enlightened, we can, and must, do better. So today, I want to speak with you about the three key issues—and opportunities—that I identified in my report.

First, I want to talk about the issue of injury prevention, second, childhood obesity, and finally, the improvement of mental health services for Canadian children and youth.

The statistics that drew me to these areas of focus are sobering and I recently came across new numbers that reinforce the conclusions that I drew in my report.

In its report card on the child wellbeing of wealthy countries, the UNICEF Innocenti Research Centre indicated that:

- Canada ranked eighteenth out of 26 countries in terms of overall child wellbeing including mental health; and,
- Sixteenth out of 21 countries in health and safety.

When it comes to obesity, the Canadian Community Health Survey reported in 2005 that among 2–17 year olds, 26 per cent of Canadians were overweight and 8 per cent were obese.

These numbers are astonishing!

Within this sobering context, the first of the three issues I want to speak with you about is very important to me: injury prevention. As a paediatric orthopaedic sur-

geon, I have significant exposure to children who get injured, and for whom the extent of their injuries is often unnecessarily severe.

Let me tell you a story.

It was only my sixth week of practice, and I was educating residents when my pager went off. I was called in by Dr. Kevin Gurr, who is an excellent adult spine surgeon. He needed a paediatric specialist to help with a four year-old boy, Michael. Michael had been ejected from the back seat of the car in which he was riding with his parents, when their car was hit by a tractor-trailer truck. He experienced what we clinically call a hemipelvectomy; half of his lower body was torn from his torso. He was so badly injured, that portions of his broken femur had been left on the road at the scene of the accident. This four year-old boy was suffering severe trauma.

I met with Michael's parents, who were understandably devastated. Given the severity of his injuries, we did not know if he was going to live. And even if he did survive, his parents asked me if he would ever be able to play outside, or run, or participate in physical activities. I can honestly tell you that at that point I did not know. Our main concern was to save him and do our very best to minimize any disability.

That night, the paediatric operating room team and my colleague, paediatric general surgeon Dr. Leslie Scott, and I spent six hours with Michael. And he made it.

Today, Michael is in grade three. And while he has one leg that is a bit shorter than the other one, which we laugh about now, he can play, he can run, and he participates in all sorts of physical activities with other kids his age.

But we were lucky. He was a very resilient little guy with a tremendous will to live. This accident happened relatively close to the hospital. He was brought to us within one hour. And we had a team of paediatric special-

ists available to take care of him immediately. Some children just don't have this opportunity.

Emotionally, it is people like Michael that make me as driven as I am. But as an academic physician, the empirical evidence that I uncovered over the course of my work was too compelling to ignore.

According to the Injury Initiative Report, published in August 2006 by the Canadian Institutes of Health Research, preventable injuries are the number-one cause of death among Canadian children and youth.

Think about that.

Preventable injuries are the number-one cause of death among Canadian children and youth.

In 2002, the World Health Organization reported that 700,000 children were killed by a preventable injury. And many others who survive injuries live the rest of their lives with severe disabilities.

ParentsCanada reports that motor vehicle accidents cause the largest number of deaths among children, followed by drowning, and then suffocation.

And it is not just the health impact. SmartRisk's Report, entitled "The Economic Burden of Unintentional Injury in Canada," concluded that these unintentional injuries to children cost the Canadian economy \$4 billion per year.

The numbers are staggering. But there are constructive ways of reducing them.

In my report, I recommend that the federal government establish a National Child and Youth Injury Prevention Strategy. This is not my idea. Organizations like SmartRisk, Safe Kids Canada, and the Canadian Child and Youth Coalition have long supported a national, strategic approach. This strategy would mandate Health Canada and the Public Health Agency of Canada to work with the provincial and territorial governments, health care experts, non-government organizations, and community organizations to develop and fund a five-year

national, evidence-based strategy for injury prevention in children and youth.

Beyond the strategy, I also make recommendations that offer very tangible, concrete things we can focus on to reduce preventable injuries. Things like supporting helmet use, eliminating toxic toys, and promoting booster seats and protective equipment for children and youth.

So we put the big piece in place, the national injury prevention strategy, and then we support it with initiatives that tackle specific problems. That's how we get these numbers down.

The second issue I want to speak with you about today is childhood obesity.

When Ontario's former Chief Medical Officer, the late Dr. Sheela Basrur, issued her "Healthy Weights, Healthy Lives Report" in 2004 it contained this alarming statistic: "The percentage of overweight children in Canada has tripled in a generation."

Tripled!

There are a number of causes—all connected. It starts with bigger food portions—food choices that don't follow the Canada Food Guide—with too much snacking on junk food, the prevalence of trans-fatty acids and less outdoor play.

The bottom line? Our kids need to eat fewer cookies and more carrots. Children need to get away from the Playstation and back out to the playground.

During the round tables I hosted across the country, I heard several things about childhood obesity.

First, part of the problem is that parents are scared to let their children play on the street and in their neighbourhoods the way most of us did growing up.

Second, among those who are obese, many will go on to develop diabetes and or cardiovascular disease.

These overweight children at risk for diabetes and cardiovascular disease will continue to have chronic co-morbidities as they become adults, putting even more

pressure on a health-care system working as hard as it can to accommodate aging baby boomers.

Many of these children will eventually die of these chronic diseases.

So how do we fix this?

In my mind, too many commentators make all of this overly complicated. It all comes down to children eating better and getting more exercise. It is as simple as that.

I also had the opportunity to provide advice to the federal government regarding the rules and parameters of the Children's Fitness Tax Credit, which I understand is having its intended impact of increasing participation in physical activity.

One of the purposes of the Children's Fitness Tax Credit was to help get children and youth playing and sweating. We made no apologies for not recommending eligibility for some activities like archery or bowling. Improving one's aiming skills wasn't the point. The point was to get children into the habit of regular, rigorous physical activity.

We need action. More after-school programs. More organizations—like the YMCA and the Boys and Girls Clubs of Canada—being supported to promote play and physical activity. And parents taking their kids to the park to run around, play and get active.

I also want to encourage the federal government to establish an obesity target. Let's reduce the rate of childhood obesity from 8 per cent to 5 per cent by 2015.

This can only be done if we all become agents of change, demanding better food choices in our restaurants, encouraging better eating habits and making physical activity a daily part of our kids lives.

The last major issue I want to discuss with you today is children's mental health. This issue is not getting the attention it deserves.

As articulated in the Canadian Paediatric Society's 2007 Status Report on Canadian Public Policy, there are many

problematic gaps in child and youth mental-health services.

At the provincial level, responsibility for mental health has been variable. In some provinces it rests with the Ministry of Community and Social Services and in others the Ministry of Health. In some it rests with both.

The result has been a lack of ownership, meaning mental health hasn't had the leadership it needs, nor has it been a focal point on the health agenda at any level.

Part of the challenge is that there are multiple entry points into the system for paediatric mental-health patients. They can get referred into the system by a teacher, a social worker, or a parent.

There are good reasons for allowing these patterns of referral, but they are unique, and create some challenges. And the result—all too often—is that young people who need psychiatric care simply get lost in the system. A large number of children and youth who suffer from some form of mental illness do not get the care they need. Children with mental-health problems are identified and referred into the system too late and their problems get worse with time.

In fact, the Sunlife Financial Chair on Adolescent Mental Health reported in 2006 that only one in five children who need mental-health services currently receive them. That is the kind of statistic that should stop you in your tracks. Only one in five gets the help he needs. The results of this gap in services are numerous, and include the burden of a massive cost to our society.

Now—the good news.

If we catch paediatric mental-health problems early enough, we can help people to lead happy and productive lives. Early diagnosis means we gain productive, contributing members of society, and we save taxpayers' dollars that would otherwise go to social assistance and treatments. Yet if we fail to catch these cases, and fail to

help these children, then their problems become society's problems.

Part of the solution is in the establishment of a paediatric mental-health wait-times strategy.

Right now, we don't really know how long children are waiting for mental-health services. The result is less effective, slower access and interventions.

In paediatric surgery, we've been able to make tremendous progress in identifying problems and bottlenecks since the implementation of our paediatric surgery wait-time strategy, which was recently expanded by Minister Clement based on the positive successes to date.

It has identified problems we didn't even know existed!

The same can—and should—be done for mental health.

A National Mental Health Strategy that focuses on the whole range of issues affecting children and youth is urgently needed. First, because Canada is the only member of the G8 who has not formally adopted such a strategy and second, because mental-health problems among children and youth are predicted by the Canadian Paediatric Society to increase by 50 per cent by the year 2020.

So today, I've brought you some sobering statistics. The statistics indicate that the health and long-term well-being of too many children are at risk. That's bad for them, and it's bad for Canada.

But I am excited about what the future holds. That's because I know that there are many things all of us here in this room—as well as people from across the country—can do to have a positive and lasting effect on the health of our children.

When I spoke with people across this country, I heard one thing again and again: "We all have a responsibility to help improve the health of all Canadian children and youth."

Helping our kids to be healthier—helping people like Michael from getting so badly hurt in the first place—needs to be a team effort. No single person, no single organization, and no single government can do it alone. It requires all of us to work together, and to work in complementary ways. It requires the different levels of government not to worry about what is in whose jurisdiction but to work together toward common goals.

Enough with the excuses. It is time to take action on these issues!

It requires NGOs to keep working hard and to continuously improve the programs they already offer, while challenging themselves to develop new ones.

It requires individuals like myself to do more than simply practise good medicine, but also to educate parents. I now tell every single parent, who brings kids through my clinic, that they **MUST** get their kids helmets for biking, and winter sports. I didn't do that in the past.

It requires professional associations to step up to do things like encourage doctors to ask about family history regarding obesity, or for engineering associations, to promote children's safety in the design of products and equipment that could be made safer.

It requires industry leaders to play a role, get involved, and make a difference.

I spoke recently to engineers and executives in the automotive industry, at their Auto 21 conference. And I described to them what happens when small children are ejected from cars involved in accidents.

You could hear a pin drop in the room when I shared with them the picture of children ejected from cars and you could see on their faces how helpless they felt, even though they wanted to do more—something, anything—to help prevent these terrible accidents.

Some of them asked me: "What can we do? What impact can we possibly have?"

I told them that I wanted industry and NGOs to work with government to be leaders in injury prevention to put me, as a surgeon who deals with injuries to children, right out of business.

Nothing would please me more than to never meet another child like Michael, and his parents, in the emergency department again.

There is so much they can do just as there is so much that those of you who are here from industry today can do as well:

- Fund R&D into safer equipment and appliances for children.
- Develop a social marketing campaign designed to teach people how to install child car seats properly.
- Sponsor an after-school program for at-risk kids.
- Raise awareness of the child safety cause. Work with Safe Kids Canada and SmartRisk to help them with their initiatives.
- Work with others. Be a part of the solution.

Your voices matter. Governments pay attention to the people and organizations from whom they hear. So write letters. Call your MPPs and MPs. Send e-mails to government ministries at both the federal and provincial levels. Speak up. Be heard. Because believe me, it does make a difference.

There is no other country in the world that has the resources, talent and the potential that Canada has. It will take planning. It will take action. It will take the desire to change long-standing systems. And most importantly, it will take commitment on all of our parts.

Reaching for the Top provides a path forward to do that. It gives a voice to the thousands of people who participated in its process, and points the way for Canada to become a global leader in the area of health outcomes for children and youth.

For each of the key factors that I've talked about today—injury prevention, childhood obesity, and children's mental health—there are actions that must be taken that will make a difference.

The issues that affect the health of our future generations are of the utmost importance now, and they will remain of the utmost importance into the future. We need to make this a priority, and keep it a priority.

No great achievement was ever accomplished that began with a timid goal. So let's make our goal to establish Canada as the world leader in children's health.

There is no reason why Canada should not be the number-one place in the world for a child to grow up in from a health and wellness perspective. Our country should be an example that others follow; our programs and services should serve as the benchmark for other countries around the world.

We have both the resources and the potential to accomplish this goal. So I urge you. Speak up. Take action. Make an impact—one child at a time.

I keep a beautiful quotation on my desk at home to remind me what's at stake. It reads:

"One hundred years from now...

It will not matter

What kind of car I drove...

What kind of house I lived in...

Or how much I had in my bank account.

But the world may be different, because I was important in the life of a child."

With your help, and with the help of other organizations and people across Canada, we can make an impact. We can make Canada the number-one place in the world for a child to grow up in.

Thank you very much.

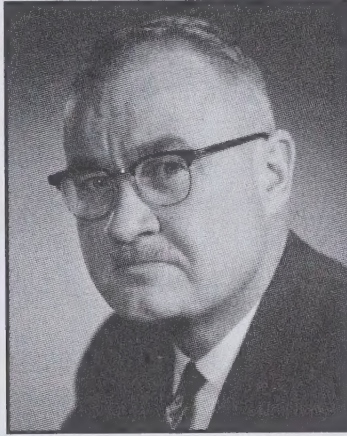
The appreciation of the meeting was expressed by Stephen Hewitt, Manager, Corporate and Public Affairs, TD Bank Financial Group, and Director, The Empire Club of Canada.

In Memoriam

Arthur Edward Merritt Inwood

July 30, 1918–February 4, 2008

Past President of the Empire Club (1953–1954)



Son of Major John and Leona (Millar) Inwood, Arthur grew up in Toronto and was educated at De La Salle College "Oaklands." He was the youngest in a family of three.

He started work at the Dominion Bank at age 17 and two years later, in 1937, was hired by the Insurance Company of North America.

In 1940, he joined the Irish Regiment of Canada, Reserve Army, and in 1942 entered the Active Service Force, Canadian Armoured Corps. Following a year's training in England he left for the Italian campaign and was one of the survivors of the sinking of the troop ship Santa Elena, torpedoed in the Mediterranean in November, 1943. He served in Italy and northwest Europe. Arthur was mentioned in despatches in 1945.

It was in Italy that he met his future wife, Frances Margaret Lawlor, a native of Alliston, Ont., who served overseas as a lieutenant nursing sister. They were married in Toronto in 1946 and raised three children.

After the war, Arthur resumed his career in the insurance industry, developing expertise in underwriting large construction risks and liabilities for such primary industries as mining and steel manufacture. He was a founder and President of the Society of Fellows of the Insurance Institute of Canada.

Arthur enjoyed sailing, golf, and, in later years, his cottage at Georgian Bay.

Not long after he retired, Arthur lost Frances, his wife of 39 years, to cancer.

But life provided a new chapter and with it the good fortune of companionship in later years with Lorna Bergen, his second wife who was herself a widow when they were introduced to each other by old friends.

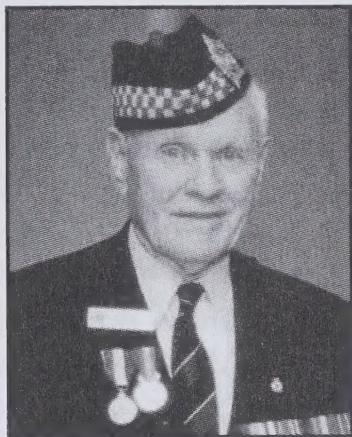
From 1953 to 1954 he was president of the Empire Club. A highlight of that year, the 50th anniversary of the Empire Club's founding, was the address by United Nations secretary-general Dag Hammarskjöld; other distinguished speakers that year included scientist Charles H. Best, neurosurgeon Wilder Penfield, and authors Pierre Berton and Nicholas Monsarrat.

Edward Paul Badovinac, CET, KH, CLJ, MMLJ
Director, The Empire Club of Canada

In Memoriam

Major William A. Duncan, CD

March 12, 1915–March 11, 2008



Major William A. Duncan was born in Hamilton, Ontario, on March 12, 1915, and passed away just a few days after his ninety-third birthday. He was educated at McMaster University, Hamilton, Ontario, and worked for the federal civil service and the post office until his retirement at 60 years of age.

Bill was a member of the Empire Club of Canada for over 40 years, serving faithfully at the door as part of the head table committee, directing people to their seats until at 92 years of age he fell and broke his leg. His cheerful smile and warm welcome enhanced the atmosphere of the club. On special occasions he wore his uniform. Bill, a member of the Argyll and Sutherland Highlanders, dropped rank during the Second World War so he could move with his men. He was very proud of the fact he was among the first Canadian officers to enter Holland during the liberation. He remained a member of the militia after the war and was responsible for hiring staff at Sunnybrook Hospital upon returning home.

In 1988, I met Major Bill Duncan and one of Jocelyn's cousins at the Empire Club where Bill would have lunch every Thursday with some of his closest friends. They all

referred to themselves as the “Geriatric Group” although I do not believe Bill ever reached that age. He always had a great smile and humorous comments for everyone.

In the late nineties I nominated Bill to become an honorary director of the Empire Club of Canada. He was very pleased and soon became a pillar of the meeting and greeting committee where he served until his accident in January, 2007. He was not able to return to this post. He would have lunch with Jocelyn, my wife, MGen. Bruce Legge, Major Sonia Skill and LCol. Sandy Cameron, but often declined to have a full lunch, only having dessert, because his wife Annabel was preparing a special dinner which he did not want to miss and disappoint her.

When Charlie Coffey arranged to have nine-year-old Hannah Taylor, the youngest speaker ever at the Empire Club, speak on her Ladybug charity, she and Bill, then 90 years of age, really enjoyed each other’s company.

One special Christmas luncheon he and Annabel received an award, which I had arranged for the then-Lieutenant-Governor, James K. Bartleman, to present.

After he broke his leg, occasionally he would return to the club to meet some of his much-admired television personality friends such as Pamela Wallin and Ken Shaw.

A great military friend of Bill’s from the late thirties had been a physical education and military cadet teacher of mine at high school and became Vice-Principal of the same school. He also became Vice-President and my boss at the community college where I taught for 30 years. All this happened before I met Bill and provided us with a lot in common.

In many areas, the presence of this energetic, honourable gentleman is sadly missed. He is deeply missed by those of us at the Empire Club who worked with him at club meetings over so many years.

Edward Paul Badovinac, CET, KH, CLJ, MMLJ
Director, The Empire Club of Canada

ANNUAL GENERAL MEETING

President's Report

June 27, 2008

Chairman

Catherine S. Swift, President

Catherine Swift

Honorary Officers and Directors, Past Presidents, Officers and Directors, Members of the Empire Club of Canada:

Notice has been given that our Annual Meeting of Members is to be held on this date and at this place and Alex Squires, our Club Secretary, will act as Secretary for the meeting.

Thank you for attending our Annual Meeting of Members.

In accordance with Article VI, Sub-section 2 of the Empire Club's Constitution, I am required to report on this year's activities—the obligatory reporting of facts, status and achievements of the Empire Club's 2007–08 speaker season, its 105th year.

And I would like to thank the many of you who helped make this past year a most memorable one for our Club, for our members and guests, our speakers, and certainly for me.

Meetings and Attendance

We had 33 luncheon meetings of the Empire Club during our 2007–08 year, including three joint meetings with the Canadian Club of Toronto and one with the Hong Kong Canada Business Association. We also had a special event held jointly with the Munk

Centre at the University of Toronto. A total of 7,754 people attended these events, which was an average of 235 people per event.

Sponsorships

Virtually all of our regular events had a Head Table sponsor which together with student table and sponsors for the Investment Outlook generated sponsorship revenues of \$153,000.

I would like to extend a special thanks to Past President George Cooke and the Dominion of Canada General Insurance Company. George and Dominion of Canada have been very helpful to the Club for many years, and in this past year once again sponsored a number of our luncheons, particularly ones with speakers who didn't have a sponsor constituency.

Membership

Our membership as at June 1, 2008 was 1,102. We have hovered around the 1000–1100 level for some time, so we are replacing members as we lose them, but we're not making any inroads in attracting new members.

In Memoriam

Regretfully, two close friends of the Empire Club died this past season and will be sorely missed. Major William A. Duncan (Bill Duncan), long time Director and Honorary Director who was tireless in greeting members at luncheons and always ready with a joke. Another loss for the Club was Arthur E.M. Inwood, who was President of the Club during the 1953–54 season.

Respectfully submitted,

Catherine S. Swift
President

Report of the Nominating Committee

June 27, 2008

John S. Niles

Madam President, fellow Past Presidents and Directors, Members of the Empire Club of Canada, it is my pleasure to chair the Nominating Committee constituted in accordance with Article V of the Club's Constitution and to report its recommendations to this meeting respecting the Club's 2008–2009 year.

The Nominating Committee

The Empire Club Constitution requires that the Nomination Committee consist of at least five directors and two members of the Empire Club. The following names were proposed and received unanimous support of the committee members:

Honorary Officers

It is the recommendation of the Committee that the following continue to serve as Honorary Officers for the 2008–2009 year:

Honorary Chairman

The Hon. Henry N. R. Jackman, OC, KStJ, OOnt, CD, LLB, LLD

Honorary President

Her Excellency, The Rt. Hon. Michaëlle Jean,
CC, CMM, CD, Governor-General of Canada

Honorary Vice-President

The Hon. David C. Onley, OOnt
Lieutenant-Governor of Ontario

Honorary Chaplain

The Rt. Rev. Colin J. Johnson

Honorary Secretary

The Hon. David Crombie

Honorary Treasurer

Hartland M. MacDougall, cvo, oc

Honorary Solicitor

The Hon. William G. Davis, PC, CC, QC

Honorary Directors

It is the recommendation of the Committee that the following continue to serve as Honorary Directors for the 2008–2009 year: Jocelyn Badovinac, Willis Blair, Mary. R. Byers, The Hon. Barnett J. Danson, PC, OC, A. Carlyle Dunbar, William J. McCormack, OStJ, Larry Stout, and J. A. William Whiteacre, MM, CD, QC.

Directors

According to the Club's Constitution "the Board shall consist of forty members, including at least four Past Presidents of the Empire Club of Canada, one of whom shall be the immediate Past President and the other three shall be the Past Presidents immediately preceding the immediate Past President, if willing to serve."

Therefore, in recognition of this constitutional requirement, the Committee nominates the following Past Presidents as Directors of the Club for the 2008–2009 year, all of whom have agreed to serve:

the immediate Past President, Catherine Swift, and Past Presidents John Niles, William Whittaker, and Bart Mindszenty.

Furthermore, the Nominating Committee recommends that the following members of the Board of Directors continue to serve in the coming year:

Edward P. Badovinac

Madame Justice Mary Lou Benotto

L.Col. A.G. (Sandy) Cameron

Charles Coffey

Diana Conconi

Verity Craig
Heather C. Devine
Heather Ferguson
Anne Fotheringham
David Goodwin
Stanley Hartt
Kamal Hassan
Duncan N. R. Jackman
Sylvia Morawetz
Doug Morris
John Niles (Chaplain)
Tim Reid
William B.P. Robson
Margaret M. Samuel
Robin V. Sears
Ken Shaw
Effie Triantifiloupoulos
William F. (Bill) White

Resignations

I take this opportunity to thank the following people for their contributions to the Empire Club of Canada:

Lou Natale
Roxanna Benoit
David Lindsay
Rev. Canon Kim Beard
Stephen Hewitt
Kevyn Nightingale

New Directors

The Nominating Committee is pleased to nominate the following members to the Board of Directors:

The Hon. William (Bill) Graham, PC, QC, BA (Hon), LLB, DU
Roberta Jamieson
Derek Nighbor
John Walker

Officers

From the above-mentioned nominees, the Committee recommends the election of the following as Club officers:

President

Jo-Ann McArthur

1st Vice-President and President-Elect

Lisa Baiton

2nd Vice-President

Rocco Rossi

3rd Vice-President

Don McCutchan

Treasurer

Richard Goodall, CA

Alex Squires will continue as the Club's Secretary.

Finally, your Committee is pleased to nominate Jo-Ann McArthur as President of the Empire Club of Canada for the 2008–2009 year.

Respectively submitted,

Dr. John S. Niles, MSM

Chair, 2007–2008 Nominating Committee

THE EMPIRE CLUB OF CANADA

Membership 2007–2008

Life Members

William Allan
Mr. & Mrs. Leland H. Ausman

Mr. & Mrs. Edward Badovinac
Joseph Batty
Willis L. Blair
R. L. Broad

Mrs. Charles Carter
George L. Cooke
Mr. & Mrs. Elgin E. Coutts
Nola Susan Crewe
Mrs. Matthew Currie

George C. Damiani
Douglas A. C. Davis
Elvio DelZotto
Mr. & Mrs. D. L. Derry
Robert G. Douglas

Dr. David J. Fieldhouse
A. E. Fitzpatrick
Col. C. Sidney Frost Jr.

George Raymond Gibson
Patricia A. Grand
Wayne Scarisbrick Gray

George S. Hanson
Paul T. Hellyer
Roland E. Henderson
Adam B. T. Hermant
Peter Hermant
John D. Herrick

Dr. & Mrs. Eric Jackman
The Hon. Henry N. R. Jackman
Willy Jong
Friederich Jung

John Kemp

George R. Laidlaw
Anne Lato
Eric N. Lehner
James Lewis
Mr. & Mrs. D. D. Lucas

Joseph Luciano

Nona Macdonald Heaslip
Colin MacKenzie
John & Gail MacNaughton
Ewald P. Mazurek
Fred G. McBrien
John S. G. McCrimmon
James W. McCutcheon
Konrad R. W. Mech
Mr. & Mrs. Edwin Mirvish
D. V. Mosher

John F. Nagel
Chris Nickerson

Major R. B. Oglesby

Dr. Sheila Pollock
BGen. D. A. Pryer

Stevan Ralph
Grant L. Reuber
John E. Richardson
Rev. Canon & Mrs. H. F. Roberts
The Hon. Col. R. C. Rutherford

J. A. Seyfried
Mrs. H. R. Shaver
Sam Sniderman
Dr. & Mrs. R. F. Stackhouse
G. O. Stafford
Henry J. Stalder

Graham John Tappin
Leonard I. Turkevics
R. Turnbull
LCol. P. J. Tuz

Andrew Stephen Zarnett

Senior Members

D. S. Affleck
H. H. Alexander
R. F. K. Anthony
Bluma Appel
G. Warren Armstrong

Marvin S. Arnold
Douglas B. Astley

Bill Bahen
Sonja Bata
K. J. Beamish
Josephine Beard
Ruth Beaucage
Avie Bennett
Dr. Henry Berry
Eileen Best
Peter J. Bloemen
William B. Bot
Roel C. Buck
Alexander Budrevics
Lorraine Burbage
Faye Arundell Burdick
Libby Burnham
Mary R. Byers

LCol. A. G. Sandy Cameron
BGen. Peter Cameron
E. J. Chard
John H. C. Clarry
James H. Claydon
Katherine Cleaver
J. M. Coker
Dr. David Common
HCol. William J. Coyle
Rita Culnan
Dr. Kalman N. Czegledy

R. G. Dale
The Hon. Barnett Danson
Thomas P. D'Aquino
S. Darveshali
Mihajlo & Mara Dika
Frank Duffy
A. Carlyle Dunbar

Stuart E. Eagles

Esther Farlingter
Rev. A. Fedrigucci
Peter B. G. Ferguson
George Fierheller
Robert J. Fleming
Lloyd S. D. Fogler
Don Forsey
Carl Fox

Murray G. Galloway
Fred Gaskin
Lionel J. Goffart

Dr. M. E. Graham

Paul Haberl-Schicker
Ann Hamilton
C. L. Haney
T. M. Hannan
Ruth Hart-Stephens
Paul Hayes
Ildiko Hencz
Keith C. Hendrick
Marion Heslewood
Donald E. Hewson
Tom Hockin
Ying Hope
Jay W. Huckle
Col. P. W. Hunter
Julien Hutchinson

John W. Irwin

Aileen Jackson
Bernice Jackson
Thomas G. Jamieson
Shirley Jesel Mills
Donald K. Johnson

Frances Kandarian
Taimi Kapsi Cushing
Carrie Kaye
Clayton Keefe
Norman Keyes
Barry Khojajian
Harry Kim
C. Wallis (Wally) King
Barbara Kingstone
Marie Knaul
LCol. Gerhard A. W. Knopf
Ted W. Kulp

Peter Large
Andrew Lawson
Bernie Leaman
Laura Legge
David L. Lester
J. P. Liddle
Mary Liitoja
Arlette Londes
Margit Lovrics

Dr. H. Ian Macdonald
Glory M. MacIntyre
Robert K. Mackenzie
Rev. Arthur Macrae
Dr. Irene C. W. S. Mahoney

Robert Malone
G. Chester McClure
Joyce McKeough
Marjorie McLetchie
Sydney R. McMorran
Eileen R. McNeil
R. C. Meech
Dr. Daniel M. Mehta
J. Alexander Menzies
P. W. Musselman

Douglas C. Nesbit
Peter C. Newman
Edwin T. Nobbs
Margaret Nosworthy
Joe Nusca

Krystyna J. Orlowski
Col. Edmunds Ozols

E. T. Pherrill
David W. Pretty

Darcy Rector
Walter Roberts
Ronald N. Robertson
S. L. Robins

Marie Scanlan
Paul H. Scrivener
Bill Sears
R. Dorene Seltzer
John Sibbald
Oscar T. Sigsworth
Oskar Sigvaldason
Doreen Sloggett
Catherine M. L. Smith
John S. Smith
M. E. E. Smith

Gerald M. Soloway
Shael S. Sone
Dr. Jerzy Sosnowski
Donald Steadman
Bette M. Stephenson
Sinclair M. Stevens
John D. Stevenson
Robert V. Stinson
Gunter Strangemann
Thomas John Succamore
Gordon W. Swayze
John H. Switzer
Thomas H. B. Symons

The Hon. M. M. van Camp

Marianne Varkony
Shirley Velletta
Thelma Vessey
W. Roy Vincent

David J. Walker
William D. Wemp
Charles Russell Whittington
Richard L. Whittington
Marie Wilson-Sanders
Marina Winters
James Wood

Ernst Younes

Michael Zygocki

Regular Members

Stephen Adler
Hugh Agro
Angela Albini
Peter Altimas
Anuj Anand
Fariba Anderson
Rob Anderson
Nancy Hughes Anthony
Dr. Antoine Aouad
Nicholas Armour
Anthony H. Arrell
Toni Ashton
Leonard J. Asper

Lisa A. Baiton
Nadjair A. Balkowski
John F. Bankes
Garnet R. Barber
Nick Barisheff
Rev. Canon Kimberley J. Beard
Pierre Beaumier
Warren Bell
Avie Bennett
Rahul K. Bhardwaj
Sardool Bhogal
Capt. S. W. (Sam) Billich
Mark Binns
Connie Bonello
Daniel Bonin
Paul Boreham
Peter N. Borst
Laura Boston
John Bourque
Philip Bousquet

David N. Bowden
Richard Boxer
Lydia M. Boyko
Marcus Breitschwerdt
Robert L. Brooks
Sandra Broudy
Howard Brown
Hugh M. Brown
Robert Bryce
Edward Burrow
Helen Burstyn
Anna Lankford Burwash
Brad Butt

Thomas S. Caldwell
Terry Campbell
John A. Campion
Richard Cantin
John Capobianco
David Cardin
Jose Luis Ceballos
James Chalmers
Tonie Chaltas
David I. A. Charing
Catherine R. Charlton
Bill Charnetski
Cleveland Chester
Patty Chilton
Roberta Chow
Oslen Christian
Dawn Clark
Peter J. Clarke
Michael Coates
Charles S. Coffey
Gary Collins
Tony Comper
Diana Conconi
Shawn Scott Cooper
Bob Copeland
Joan M. Costa
Alec Couckuyt
Robert Courteau
Verity Craig
J. S. Crichton
Sandra Cruickshanks
Ann Curran
Barry Cybuchowski

Timothy Daciuk
Tom Dalinda
Robert M. Davies
Clint Davis
Donald L. Davis

Douglas A. R. Davis
Paul Davis
Gerd DeBeer
Michael Decter
Michael B. Deeb
Michael Dell
Heather Devine
Rueben Devlin
Stephen Dibert
Fred Dilkes
Charles Dillingham
Marcus Doyle
Dragan Draganjac
Lorna Dueck
Colleen Duke
Stephen Dulmage
Julia N. Dumanian
H. James Duncan
Marc Dupont
Ron Durand
Maurice Dutrisac

Alexander Edmison
Robert Edmonds
Michael Ellis
John H. Emery
Jake Epp
James Estey
Tenio Evangelista
David Evans
Ernie Eves
John Ewing
Wade Eyre

Dr. Esther Farlinger
Jean Faulds
Gervan Fearon
Lee Ford Jones
Ruth Fothergill
Andre Fournier
Leo Fournier
Landon French
Peter Friis
Susan Fulford

Shannon Gall
Catharine Gapp
Alejandro J. Garcia
Ed Gibbs
Neil Gilbertson
Rosemarie Godina
Philip Goldsmith
Eric Goldstrand

Richard Goodall
David Goodwin
Leyland Gordon
Brian Gore
Tyler Gorripf
David J. Grace
Michael Graham
Fred Green
Doris Grinspun
Howard Gross
Anshu Grover
Jonathan Guss
H. D. Guthrie
Ryan Guthrie

Mary Jo Haddad
Heather Haigh
Nabil Harfoush
D. Harris
Brett Harrison
Michael Harrison
Stuart Hartley
Stanley Hartt
John Have
Duncan Hawthorne
Gabriel J. Hayos
William Hazelton
Keith C. Hendrick
Catherine Herring
Rives Dalley Hewitt
Gordon Hicks
Scott B. Hill
Nai Chi Ho
Doug R. Hogan
Nadia Homonko
Robin Howlings
John Hrycak
Angella Hughes
Brian Hunt
Susan Hunt
Gayle Hurmuses

Anthony Iantorno
Jim Irving

Duncan N. R. Jackman
Rev. Edward J. R. Jackman
Sean Jackson
Eric Jacob
Mazher Jaffery
Kent James
Roberta Jamieson
Helen Janca-Scott

Karlis Jansons
Peter Jobling
The Right Rev. Colin R. Johnson
Donald K. Johnson
Patrick Johnston
Robert Johnston

Michael Kacaba
Russell Kaimacoff
Marlene Kalchos
Pamela Kanter
Mark Kassirer
Alik Kassner
Koichi Kawakami
Kacim Kellal
Phillip Khaiat
Nola Kianza
Patrick Kieltly
Indra Kiesners
Grace Kim
Malcolm Charles Searell King
June Knapp
Ken Knox
Tom Koger
David Konkin
John Koopman
Michael Koscec
Stuart Koskie
Stan Krol
Michael Krywenky
Arkadi Kuhlmann
Krystyna Kupfer
Cesar Kupfer Jarmain
Robert (Bob) Kuzminski

Michael Landry
James Langstaff
Lieutenant N. Douglas Layton
John LeBlancq
Michel Leduc
Deborah Lee
Rosalind Lehman
Kurt Letain
Bernard Lette
Sheldon Levy
Dave Lindsay
Les Liversidge
Bob Lopinski
Garth Low
Tony Luk
Warren Lundy

Margaret Macdonald

Karma MacGregor
 Bruce MacKay
 Cliff Mackay
 Murray MacKenzie
 Catherine MacKenzie Nugent
 Malcolm J. MacKillop
 David MacKinnon
 LCol. Peter MacLaurin
 Anne MacPhee
 Kevin V. Madigan
 Annie Malhotra
 Larry Maloney
 George John Malyk
 Raj Manucha
 Leslie Marchant
 Joseph Marquez
 Tel Matrundola
 Neil C. Mattson
 Christopher May
 Tasha Mazza-Kelton
 Jennifer Mazzarolo
 Jo-Ann McArthur
 Susan McArthur
 Dr. Kevin McCormick
 Gary W. McCracken
 The Hon. Barbara McDougall
 Bruce McDougall
 David J. McFadden
 Don McGuire
 Alistair K. McKay
 John McKendry
 Constance McKnight
 Michael J. McLaughlin
 Roger McMillan
 Andrew G. McMurtry
 Greg McNab
 Ben McNally
 Ian D. C. McPhail
 John McTrusty
 John McVey
 John C. Medcof
 Lee Meister
 Gerard M. Mercer
 Anwar (Andy) Merchant
 Jim Mikell
 David Milliken
 David Milton
 Jim Milway
 R. Peter Misener
 Geoff Mitchinson
 Gary P. Mooney
 David Moore

Sylvia A. Morawetz
 Marissa Morettin
 Geoff Morphy
 Darcy Morris
 Douglas Morris
 Andre Morriseau
 Dr. Jean A. Moss
 Greg Mozesson
 Bill Munson
 Tim Murphy
 Karen Murton
 Leah Myers

 Gary A. Nacht
 Joe Nadler
 Joan Nakata
 David Naylor
 Byron C. Neiles
 Dawn M. Nevills
 Heather Nicolson-Morrison
 Kevyn Nightingale
 Rev. Dr. John Niles
 Leslie Noble
 Michael J. Norris

Janice O'Born
 Robert O'Brien
 Dan T. J. Oh
 Derek Oland
 Peter Olierook
 G. J. (Gerry) O'Mahoney
 Catherine O'May
 Ed Orendorff
 Dale Orr
 Jean Ouellet
 Michel Oulimar
 Loudon Owen

A. John Page
 Michael Palangio
 Allen Paul
 Roland Paxton
 Glen Pearce
 Margaret Pearcy
 Gordon Peeling
 Peter Penashue
 Jennifer Peng
 Joan Pinder
 Dirk Poolman
 Saurabh Popat
 Stefan J. Preisenhammer
 William F. Presnail

Francisco Quiroga

Dr. Victor Rabinovitch

Dr. Sophie Radziuk

Zul Rahim

Manfred Rainer

Zarar Rana

Michael Ras

David Raymont

Doreen Reeves

Helen Reeves

Richard John Reeves

Tim Reid

David Reilley

Rozanne E. Reszel

Heather Reuber

Jay Richardson

Carol Roberts

Clive W. Robinson

Garfield Robinson

Gary Rogers

Mark Romoff

Joseph Rooney

N. William Ross

Tim Rourke

Tony Russell

Mike Russill

Sandy Rutherford

Mary Ryan

Bruno Ryff

Dr. Jana Sajner

Jasmine K. Samra

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Turner

Jason Joseph & Pippa Van Dam

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Irene Berkowitz

James Justin M. Floyd

Joe Karabinos Jr.
Matthew Kupfer
Stephen Kupfer

Ron Mernick
Vince Mirabelli
Shermin Mirmoghtadaei

M. J. Perry

Elizabeth Robson

Rishi Sethi

Ronald Tsang

Cristina Van Blommestein
Enzo Verrilli

Steven Wang
Jim Ward

Auditors' Report

To the Members of
The Empire Club of Canada

We have audited the financial position of the Empire Club of Canada as at June 30, 2008 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Club's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Club as at June 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Ontario Corporations Act, we report that in our opinion, these principles have been applied, except for the method of valuing investments as explained in note 2 of the financial statements, on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Toronto, Canada
August 22, 2008

Financial Report

THE EMPIRE CLUB OF CANADA Statement of Financial Position for the Year Ended June 30, 2008 with Comparative Figures for 2007

	2008	2007
Assets		
<i>Current Assets</i>		
Cash	\$ 44,269	\$ 131,725
Short-term investments (note 4)	\$ 365,670	\$ 347,092
Accounts receivable	48,943	18,461
Prepaid expenses	4,295	3,347
	<u>463,177</u>	<u>500,625</u>
<i>Capital Assets</i>	<u>1</u>	<u>1</u>
	<u>\$ 463,178</u>	<u>\$ 500,626</u>
 Liabilities and Net Assets		
<i>Current Liabilities</i>		
Accounts payable and accrued liabilities	\$ 33,127	\$ 58,359
Due to the Empire Club Foundation	—	629
Deferred revenue	6,521	2,887
	<u>39,648</u>	<u>61,875</u>
<i>Net Assets</i>		
Unrestricted	<u>423,530</u>	<u>438,751</u>
	<u>423,530</u>	<u>438,751</u>
	<u>\$ 463,178</u>	<u>\$ 500,626</u>

Signed on behalf of the Board

Richard Goodall
Treasurer

Catherine S. Swift
President

The accompanying notes are an integral part of these financial statements.

Financial Report

THE EMPIRE CLUB OF CANADA Statement of Cash Flows for the Year Ended June 30, 2008 with Comparative Figures for 2007

	2008	2007
<i>Cash provided by (used in):</i>		
<i>Operations</i>		
Excess of expenses over revenue	\$ (15,221)	\$ (5,649)
Changes in non-cash operating working capital:		
Short-term investments	(18,578)	(14,896)
Accounts receivable	(30,482)	53,828
Prepaid expenses	(948)	(1,499)
Accounts payable	(25,232)	(12,087)
Due to the Empire Club Foundation	(629)	629
Deferred revenue	3,634	(78)
	<u>(87,456)</u>	<u>20,248</u>
<i>Increase (Decrease) in Cash</i>	(87,456)	20,248
<i>Cash, Beginning of Year</i>	<u>131,725</u>	<u>111,477</u>
<i>Cash, End of Year</i>	<u><u>44,269</u></u>	<u><u>131,725</u></u>

Signed on behalf of the Board

Richard Goodall
Treasurer

Catherine S. Swift
President

The accompanying notes are an integral part of these financial statements.

Financial Report

THE EMPIRE CLUB OF CANADA Statement of Operations and Net Assets for the Year Ended June 30, 2008 with Comparative Figures for 2007

	2008	2007
<i>Revenue</i>		
Luncheons:		
Regular	210,205	241,516
Special and joint	<u>167,378</u>	<u>108,545</u>
	377,583	350,061
Direct expenses:		
Regular	(205,612)	(198,226)
Special and joint	<u>(91,403)</u>	<u>(64,103)</u>
	(297,015)	(262,329)
Other revenue:		
Head table sponsors	113,650	94,500
Membership fees	27,103	23,638
Interest	<u>18,578</u>	<u>14,903</u>
	239,899	220,773
<i>Expenses</i>		
Office salaries and employee benefits	95,210	91,694
Office and general	66,820	47,438
Yearbook donation	50,000	35,000
Members' notices	11,595	16,884
Printing, stationery and postage	4,783	15,186
Rent	14,048	13,815
Telephone	6,301	6,405
Uncollectable accounts receivable	<u>6,363</u>	<u>—</u>
	255,120	226,422
<i>Excess of Expenses over Revenue</i>	\$ (15,221)	\$ (5,649)
<i>Net Assets, Beginning of Year</i>	\$ 438,751	\$ 444,400
<i>Net Assets, End of Year</i>	<u>\$ 423,530</u>	<u>\$ 438,751</u>

The accompanying notes are an integral part of these financial statements.

Financial Report

THE EMPIRE CLUB OF CANADA Notes to Financial Statements for the Year Ended June 30, 2008

General

The Empire Club of Canada (the "Club") was incorporated under Letters Patent in the Province of Ontario on March 26, 1912. The principal function of the Club is to provide a forum for prominent people to address members of the Club and their guests on topics of current interest.

1. Significant Accounting Policies

(a) Revenue Recognition

The Club follows the deferral method of accounting for contributions. Membership revenue is recognized as revenue in the year to which the membership relates. Luncheon revenue and sponsorships are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions and interest are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(b) Short-term Investments

Short-term investments are carried at fair value (note 2).

(c) Capital Assets

Capital assets, consisting of office furniture and equipment, are recorded at nominal value and additions are recognized as office and general expenditures in the year acquired.

(d) Due to the Empire Club Foundation

A donation to the Empire Club Foundation for the

estimated cost of supplying the Club's membership with the yearbook of the current year is accrued each year.

(e) Deferred Revenue

Deferred revenue consists of membership fees paid in advance, unredeemed luncheon tickets and life memberships not yet amortized. Life memberships are amortized into revenue over the expected 30-year life of a member. Effective April 30, 2002, life memberships are no longer offered; however any remaining balances will continue to be amortized over their remaining terms.

(f) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. *Change in Accounting Policy*

Effective July 1, 2007, the Club adopted the Canadian Institute of Chartered Accountants' Handbook Section 3855, Financial Instruments—Recognition and Measurement.

The Club has designated all of its investments as held for trading and as such are recorded at fair value. Transaction costs related to the purchase of investments are capitalized and sale of investments are expensed in the year incurred. Changes in unrealized gains are treated as an increase or decrease in the statement of operations.

As required by the transitional provision of the handbook section, the accounting policy change has been adopted on a retroactive basis, without restatement. The impact of this change did not have a significant impact on these financial statements.

3. *Future Accounting Changes*

Future accounting changes:

The following summarizes a future accounting change that will be relevant to the Club's financial statements subsequent to June 30, 2008.

Financial instruments—disclosure:

The Canadian Institute of Chartered Accountants has issued new accounting standards on financial instruments that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. These new standards will be reflective for the Club commencing on July 1, 2008. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments to which the Club is exposed and how it manages those risks.

4. *Short-term Investments*

Short-term investments are comprised of liquid income securities.

(a) Interest rate risk and maturity risk

The value of fixed income securities will generally rise if interest rates fall and decrease if interest rates rise. The fixed income investments consist of guaranteed investment certificates, bearing interest at rates ranging from 3.65% to 4.55% (2007—3.65% to 4.55%) and maturing from June 7, 2010 to May 20, 2015 (2007—June 7, 2010 to May 20, 2015).

(b) Market risk

Market risk arises as a result of trading fixed income securities. Fluctuation in the market exposes the Club to a risk of loss.

5. *Fair Value of Financial Instruments*

The carrying value of cash, short-term investments, accounts receivable and accrued liabilities, accounts payable, due to the Empire Club Foundation and deferred revenue approximate their fair values due to the relatively short periods to maturity of these instruments or because they are receivable or payable on demand.

THE EMPIRE CLUB FOUNDATION

October, 2008

Fellow members,

In the 2007–2008 season, under the leadership of Ms. Catherine Swift, the Empire Club of Canada has continued to provide a forum for the intellectually curious and the socially active. In a highly competitive marketplace, her leadership has strengthened the Club's reputation as the leading speaker's forum of record in the country.

This year's speeches, like prior speeches, provide interesting insights into the thoughts of a variety of principals and commentators on contemporary issues. While in some speeches the issues addressed are striking in their novelty, in other speeches the issues addressed are striking in the similarity of the concerns addressed with speeches made to our Club a century ago.

Although this physical volume remains, and will always be, an important part of the activities of the Empire Club Foundation, we are encouraged by the ever-increasing popularity of our Web site, which contains the text of all speeches ever made to The Empire Club of Canada. We believe that this Web site is and will be an invaluable resource for anyone who believes that understanding the past might in some small way improve the future.

The financial statements that follow this report reflect the significant and generous support of the members and friends of the Empire Club of Canada. We are also indebted to Gary Metcalfe at Fine Impressions, who has provided a steady hand at the tiller for many years now. On behalf of the Empire Club Foundation I thank everyone who helps maintain and grow our tradition.

Sincerely,
John C. Koopman, Chairman

THE EMPIRE CLUB FOUNDATION

Patron

Col. The Hon. Henry N. R. Jackman, OC, CD, KStJ, LL.D

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Honorary Treasurer:	Richard Goodall, CA
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John F. Banks
Mary R. Byers
C. Warren Goldring
Ronald Goodall, FCA
Frederick L. R. Jackman, CStJ, PhD, LL.D
Gareth S. Seltzer
Harry T. Seymour

THE EMPIRE CLUB FOUNDATION CONTRIBUTORS

April 30, 2007–April 30, 2008

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Canadian & Foreign Securities Co.

Mr. & Mrs. C.W. Goldring

Mrs. Nona Heaslip

The Hon. Henry N. R. Jackman

Gareth S. Seltzer

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H.M. MacDougall

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Dr. H. Ian MacDonald

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Allan O'Dette

Darcy Rector

Robin V. Sears

Joseph D. Sorbara

Larry Stout

Auditors' Report

To the Members of
The Empire Club Foundation

We have audited the statement of financial position of the Empire Club Foundation as at April 30, 2008 and the statement of earnings and net assets for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many charitable organizations, the Foundation derives revenue from donations from supporters, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the records of the Foundation and we were not able to determine whether any adjustments might be necessary to donation revenue, excess of revenue over expenses, assets and net assets.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the donations referred to in the

preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Foundation as at April 30, 2008 and the results of its operations and the changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that in our opinion, these principles have been applied, except for the change in the method of valuing investments as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Toronto, Canada
August 22, 2008

Financial Report

THE EMPIRE CLUB FOUNDATION Statement of Financial Position for the Year Ended April 30, 2008 with Comparative Figures for 2007

	2008	2007
Assets		
<i>Current Assets:</i>		
Cash	\$ 20,646	\$ 9,110
Short-term investments (note 3)	88,018	115,000
Interest receivable	2,304	3,098
Due from the Empire Club of Canada	50,000	35,000
GST receivable	3,615	838
	<u>\$ 164,583</u>	<u>\$ 163,046</u>

Liabilities and Net Assets

Current Liabilities:

Accounts payable and accrued liabilities	\$ 126,052	\$ 131,074
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<i>Net Assets</i>	<u>38,532</u>	<u>31,972</u>
	<u>\$ 164,583</u>	<u>\$ 163,046</u>

Signed on behalf of the Board

John C. Koopman
Chairman

Ronald Goodall
Director

The accompanying notes are an integral part of these financial statements.

Financial Report

THE EMPIRE CLUB FOUNDATION Statement of Earnings and Net Assets for the Year Ended April 30, 2008 with Comparative Figures for 2007

	2008	2007
<i>Revenue</i>		
Donations:		
The Empire Club of Canada	\$ 50,000	\$ 35,000
Supporters	14,506	9,124
Interest	3,041	3,811
Other income	—	1,181
	<u>\$ 67,547</u>	<u>\$ 49,116</u>
<i>Expenses</i>		
Yearbook	52,159	61,270
Stationery, postage and other expenses	8,828	7,678
	<u>\$ 60,987</u>	<u>68,948</u>
<i>Excess (Deficiency) of Revenue over Expenses</i>	6,560	(19,832)
<i>Net Assets, Beginning of Year</i>	31,972	51,804
<i>Net Assets, End of Year</i>	<u>\$ 38,532</u>	<u>\$ 31,972</u>

The accompanying notes are an integral part of these financial statements.

Financial Report

THE EMPIRE CLUB FOUNDATION Notes to Financial Statements for the Year Ended April 30, 2008

The Foundation

The Empire Club Foundation (the "Foundation") was incorporated on January 22, 1969 under the laws of Canada as a non-profit organization. The principal function of the Foundation is the publication and distribution of yearbooks, containing the texts of addresses to the Empire Club of Canada, to the Club's members and libraries across Canada. The Foundation's activities are funded by donations.

1. Significant Accounting Policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Those estimates are reviewed periodically and as adjustments become necessary, they are reported in the years in which they become known.

(a) Revenue Recognition

The Foundation includes donations in revenue when received, except for donations from the Empire Club of Canada, which are included in revenue when pledged.

(b) Expenses

The estimated cost of publishing and distributing yearbooks of the current year is accrued each year.

2. *Change in Accounting Policy*

Effective May 1, 2007, the Foundation adopted the Canadian Institute of Chartered Accountant's Handbook Section 3855, Financial Instruments—Recognition and Measurement.

The Foundation has designated all of its investments as held for trading and as such are recorded at fair value. Transaction costs related to the purchase of investments are capitalized and sale of investments are expensed in the year incurred. Changes in unrealized gains are treated as an increase or decrease in the statement of operations.

As required by the transitional provision of the handbook section, the accounting policy change has been adopted on a retroactive basis, without restatement. The impact of this change did not have a significant impact on these financial statements.

Financial instruments—disclosure:

The Canadian Institute of Chartered Accountants has issued new accounting standards on financial instruments that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. These new standards will be reflective for the Foundation commencing on May 1, 2008. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments to which the Foundation is exposed and how it manages those risks.

3. *Short-term Investments*

Short-term investments are comprised of Guaranteed Investment Certificates (GIC).

(a) Interest rate risk and maturity risk

The value of fixed income securities will generally rise if interest rates fall and decrease if interest rates rise. The fixed income investments consist of a GIC, bearing interest at a rate of 3.45% (2007—3.55%) and maturing on July 25, 2008 (2007—July 26, 2007).

(b) Market risk

Market risk arises as a result of trading fixed income securities. Fluctuation in the market exposes the Foundation to a risk of loss.

3. *Statement of Cash Flows*

A statement of cash flows has not been presented as it would not provide any additional meaningful information.

4. *Fair Value of Financial Assets and Financial Liabilities*

The carrying values of cash, short-term investments, interest receivable, due from the Empire Club of Canada, GST receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short term to maturity of these items or because they are receivable or payable on demand.

CONSTITUTION

The Empire Club of Canada By-Law No. 1

Being a special by-law relating generally to the administration of affairs of The Empire Club of Canada

CONTENTS

ARTICLE I	<i>Definitions and Interpretation</i>
ARTICLE II	<i>Business of the Club</i>
ARTICLE III	<i>Purpose and Object of the Club</i>
ARTICLE IV	<i>Membership</i>
ARTICLE V	<i>Directors</i>
ARTICLE VI	<i>Meetings of The Board</i>
ARTICLE VII	<i>Committees</i>
ARTICLE VIII	<i>Officers</i>
ARTICLE IX	<i>Regular, Special and Annual Meetings</i>
ARTICLE X	<i>Fiscal Year</i>
ARTICLE XI	<i>Not-For-Profit Corporation</i>
ARTICLE XII	<i>Amendment of By-Laws</i>
ARTICLE XIII	<i>Auditor</i>
ARTICLE XIV	<i>Indemnification of Directors and Officers</i>
ARTICLE XV	<i>Financial Matters</i>

The following is hereby enacted as By-Law No. 1 of The Empire Club of Canada (hereinafter called the “Club”):

ARTICLE I	<i>Definitions and Interpretation</i>
------------------	---------------------------------------

Section 1.01 Definitions

In this By-Law, the following words and phrases shall have the following meanings, respectively:

- a) “**Act**” means the *Corporations Act*, R.S.O. 1990, c.C.38 as amended, and every statute that may be substituted therefore and, in the case of such substitution, any

- reference in the By-Law of the Club to provisions of the Act shall be read as references to the substituted provisions therefore in the new statute or statutes;
- b) **“Board”** means the board of Directors of the Club;
 - c) **“By-law”** means this By-Law and all other by-laws and special by-laws from time to time in force and effect;
 - d) **“Club”** means the corporation incorporated by Letters Patent issued on the 26th day of March 1912, pursuant to *The Ontario Companies’ Act* and operating under the name of The Empire Club of Canada;
 - e) **“Notice”** means, the provision of information, orally, or in writing, and may be communicated via telephone, facsimile transmission, publication, or electronic mail, and is deemed to be effective on the date the notice is sent or published, and such Notice shall be sufficient if addressed to the Members at their respective Recorded Address, and deposited post paid in the post office in Toronto;
 - f) **“Recorded Address”** means, in the case of a Member, his or her address as recorded in the register of Members and, in the case of a Director, Officer, auditor or member of a committee of the Board, his or her address as recorded in the records of the Club;
 - g) **“Registered Office”** of the Club will be at such location in the City of Toronto as determined by the Board from time to time;
 - h) **“Special Resolution”** means a resolution passed by the vote of at least two-thirds of the Members present and voting at a duly convened meeting;
 - i) **“Member”** means a member of the Club; and
 - j) **“Officer”** means those officers of the Club set out in Article VIII.

Section 1.02 Interpretation

This By-Law shall be interpreted in accordance with the following, unless the context otherwise specifies or requires:

- a) Words importing the singular number or the masculine gender shall include the plural number or the feminine gender, as the case may be, and vice versa, and references to persons shall include individuals, firms and corporations; and
- b) Headings used in this By-Law are inserted for reference purposes only and are not to be considered or taken into account in construing the terms or provisions thereof or to be deemed in any way to clarify, modify or explain the effect of any such terms or provisions.

Section 1.03 Repeal of Previous By-Laws

All previous By-Laws relating to the administration of the affairs of the Club are hereby repealed and replaced with this By-Law.

ARTICLE II *Business of the Club*

Section 2.01 Name

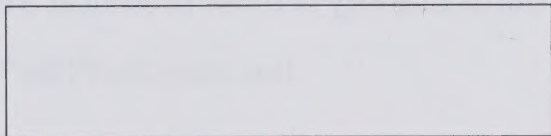
The name of the Club is "The Empire Club of Canada."

Section 2.02 Registered Office

Until changed in accordance with the Act, the Registered Office of the Club shall be in the Province of Ontario and at such location therein as the Board may, from time to time, determine by resolution.

Section 2.03 Corporate Seal

The seal, an impression whereof is stamped in the margin hereof, shall be the seal of the Club.



ARTICLE III *Purpose and Object of the Club*

The purpose and object of the Club is to promote the interests of Canada and the British Commonwealth of Nations.

ARTICLE IV *Membership*

Section 4.01 **Classes of Members**

The membership of the Club shall consist of:

- a) Life Members;
- b) Senior Members
- c) Regular Members;
- d) Junior Members; and
- e) Spousal Members

All members of classes (a), (c), and (e), must be the full age of eighteen years (excepting Senior Spousal Members), and otherwise have the capacity under law to contract.

Section 4.02 **Life Members**

Members of the Club in good standing may be elected to be Life Members by a two-thirds majority of those present at a Board meeting. Life Members shall pay one fee only, variable by age of the applicant, as may be fixed and published from time to time by the Board of Directors.

Section 4.03 **Senior Members**

Senior Members of the Club shall be of such age, and employment status, as determined by the Board of Directors from time to time.

Section 4.04 **Regular Members**

Candidates for Regular Membership shall be proposed by a Member in good standing and shall be elected by a two-thirds majority of those present at a Board meeting.

Section 4.05 Junior Members

Candidates for Junior Membership shall be between the ages of 14 and 35 years, proposed by a Member in good standing, and elected by a two-thirds majority of those present at a meeting of the Board of Directors.

Section 4.06 Spousal Members (Regular and Senior)

Spousal Members are charged annually a lesser membership fee for a spouse living at the same address as a Regular Member, Junior Member, or Senior Member.

Section 4.07 Membership Fees

- a) All Members (excepting Life Members) shall pay respectively such annual fees as may be fixed and published from time to time by the Board of Directors;
- b) All Members elected after the first day of March in any year shall pay one annual fee only in respect of the period from the date of election until the 30th day of September in the following year; and
- c) For all Members, membership shall end June 30, and if any Member is in arrears for fees after February 1 of the following year, such Member will no longer be considered in good standing.

ARTICLE V *Directors*

Section 5.01 Duties and Powers of Directors

The affairs of the Club shall be managed by a Board of Directors who may exercise all such powers and do all such acts and things as may be exercised or done by the Club.

Section 5.02 Number

The Board of Directors shall comprise 40 persons and shall include all of the following:

- a) 30 Members;
- b) The four Immediate Past Presidents; and

- c) six Officers.

Section 5.03 Quorum

Ten Directors present at a meeting of the Board shall constitute a quorum.

Section 5.04 Qualification of Directors

Each Director shall:

- a) be at least eighteen (18) years of age;
- b) be a Member of the Club;
- c) not be an undischarged bankrupt; and
- d) have the capacity under law to contract.

Section 5.05 Nomination and Election of Directors

Nominations for election as Director at the Annual Meeting of the Club may be made in accordance with the following process:

- a) The Board shall charge a committee with responsibility for the nominations process relating to the election of Directors, (the "Nominating Committee"), which shall consist of five Directors and four other Members of the Club;
- b) The Nominating Committee shall be appointed annually by the Board of Directors in accordance with Article 7.01;
- c) The Nominating Committee shall prepare a list of the nominations for Directors for the ensuing year;
- d) The Chair (or acting Chair) of the Nominating Committee shall report the nominations to the Annual Meeting at which the Board of Directors shall be elected, but nothing herein shall preclude the nomination of other persons for the office of Director at the Annual Meeting;
- e) If nominations do not exceed the number of Directors necessary, the Chair of the meeting may instruct the Secretary to cast one ballot in favour of those so

nominated and thereupon such persons shall be declared by the Chair to have been duly elected;

- f) If the nominations exceed the number of Directors necessary, the Chair will call for a show of hands, unless a poll be demanded by the Chair or by any candidate for election. Upon a show of hands every member having voting rights shall have one vote and a declaration by the Chair that a resolution has been carried or not carried followed by an entry to that effect made in the minutes of the Club shall be prima facie evidence of the fact without proof of the number or proportion of the votes accorded in favour or against such resolution. The demand for a poll may be withdrawn, but if a poll be demanded and not withdrawn the question shall be decided by a majority of the votes cast and such poll shall be taken in such manner as the Chair shall direct. The result of such poll shall be deemed the decision of the Club upon the matter in question. In the event of the equality of the votes cast, whether by a show of hands or by a poll, the Chair shall be entitled to a second or casting vote; and
- g) No person shall be elected a Director unless he is a Member in good standing.

Section 5.06 Honorary Directors

A Member, whose service to the Club has been exemplary, may be elected to the position of Honorary Director annually by a two-thirds majority of Directors, subject to re-election.

Section 5.07 Remuneration of Directors

The Directors shall receive no remuneration for acting as such.

Section 5.08 Casual Vacancies

In the event of any vacancy occurring in the office of Director, the remaining Directors may fill the vacancy from among the Members for the unexpired portion of the term of office of the person whose office is vacant.

ARTICLE VI *Meetings of The Board*

Section 6.01 Procedure

The procedure for regular Board meetings is as follows:

- a) Board meetings shall be called by the President, or on a requisition signed by ten Directors;
- b) The President shall, when present, preside at all meetings of the Members and of the Board of Directors. During the absence or inability to act of the President, the Vice-Presidents in order of seniority, shall act as Chair at such meetings;
- c) Questions arising at any meeting of the Directors shall be decided by a majority of votes unless otherwise specifically provided by statute or this By-Law. In the case of an equality of votes, the Chair of the meeting, in addition to his original vote, shall have a second or deciding vote;
- d) All votes at any meeting shall be taken by ballot if so demanded by a majority of Directors present, but if no demand be made, the vote shall be taken by a show of hands; and
- e) A declaration by the Chair of the meeting that a resolution has been carried and an entry to that effect in the minutes shall be admissible in evidence as prima facie proof of the fact without proof of the number of proportion of the votes recorded in favor of or against such resolution.

Section 6.02 Notice

- a) Notice shall be given to each Director and Honorary Director five days or more before the Board meeting is to take place, provided that a Board meeting may be held at any time if all Directors are present or if those absent have waived Notice or otherwise signified their consent to such meeting being held in their absence, in writing;

- b) Notice of regular Board meetings may be given via telephone, facsimile transmission or electronic mail to each Director, and Honorary Director;
- c) Waiver of Notice may be given via facsimile transmission or electronic mail to each Director, and Honorary Director; and
- d) The Board may appoint a day or days in a month or months for regular meetings, at an hour or place to be named, and of such regular meetings, no notice need be given.

ARTICLE VII *Committees*

Section 7.01 **Standing Committees**

The following standing committees and the Chair of each shall be appointed by the Board of Directors as soon as convenient after each election of the Board:

- a) Budget and Finance Committee;
- b) Speaker's Committee;
- c) Membership Committee;
- d) Constitution and Corporate Governance Committee;
- e) Reception Committee;
- f) Publicity and Public Relations Committee;
- g) Yearbook Committee;
- h) Head Table and Attendance Committee; and
- i) Nominating Committee;

provided that for any year the Board of Directors may by resolution elect not to appoint any one or more of such committees.

• **Section 7.02** **Other Committees**

The President or the Board of Directors may from time to time appoint such other Committees as may be deemed expedient, necessary or appropriate for such purposes and with such powers as the President or the Board shall see fit.

Any such Committee may formulate its own rules of procedure, subject to such regulations or directions as may from time to time be made by the President or the Board.

Section 7.03 Removal from Committees

Any committee member may be removed by resolution of the Board.

ARTICLE VIII *Officers*

Section 8.01 Appointment of Officers

The Board of Directors shall meet as soon as convenient after their election for the purpose of appointing the Officers of the Club for the period ending June 30th in the next year, but each Officer shall continue in office until his successor is appointed. No notice of the meeting to appoint new Officers is required if this meeting is held immediately after the Annual Meeting.

Section 8.02 Honorary Officers

The Honorary Officers of the Club shall consist of the following:

- a) Honorary President;
- b) Honorary Vice-President;
- c) Honorary Chairman;
- d) Honorary Secretary;
- e) Honorary Treasurer; and
- f) Honorary Solicitor.

Section 8.03 Officers

The Officers of the Club shall consist of the following:

- a) President;
- b) First, Second and Third Vice-Presidents;
- c) Secretary; and
- d) Treasurer.

Section 8.04 Qualifications

- a) All Officers other than Honorary Officers shall be Directors of the Club;
- b) No person other than the Honorary President and the Honorary Vice-President shall be eligible for office unless he is a Member in good standing; and
- c) In the event of a vacancy occurring in any office, the Board of Directors may fill the vacancy for the un-expired portion of the term.

ARTICLE IX *Regular, Special and Annual Meetings*

Section 9.01 Regular Meetings

The Club shall hold Regular Meetings weekly, if possible, from September to June, inclusive, with such intermissions as may from time to time be determined by the Board of Directors.

Section 9.02 Special Meetings

Special Meetings of the Club may be called at any time by the President, or on a requisition signed by ten Directors.

Section 9.03 Annual Meetings

The Annual Meeting shall be held not later than June 30th of each year. At the Annual Meeting a report of the year's proceedings and work shall be submitted by the President and this report shall be accompanied by an interim financial report from the Treasurer.

Section 9.04 Notice of Meetings to Members

- a) Notice of all Regular Meetings shall be given to all Members of the Club at their Recorded Address;
- b) Notice of all Special and Annual Meetings shall be given to all Members of the Club at least ten days prior to the date upon which the meeting is to be held; and

- c) The accidental failure or omission to give notice to any Member shall not invalidate the proceeding at any meeting.

Section 9.05 Quorum at Meetings

Sixteen Members in good standing shall constitute a quorum at any meeting of the Members of the Club.

Section 9.06 Limitation of Business at Regular Meetings

No business shall be introduced at any Regular Meeting of the Club by any person other than the Chair of the meeting, unless it has been approved by the Board prior to the meeting.

ARTICLE X *Fiscal Year*

The fiscal year of the Club shall end on such day in each year as may be fixed by the Board of Directors, but if not so fixed by the Board, it shall end on June 30.

ARTICLE XI *Not-For-Profit Corporation*

The Club shall be operated without the purpose of gain for any of its Members and any profits or other accretions to the Club shall be used in promoting the objects of the Club.

ARTICLE XII *Amendment of By-Laws*

The By-Laws of the Club may be repealed or amended by a by-law enacted by the Board of Directors and sanctioned by an affirmative vote of two-thirds (2/3) of the Members at a meeting duly called for the purpose of considering such repeal or amendment.

ARTICLE XIII *Auditor*

- a) An Auditor shall be appointed at each annual meeting at a remuneration to be determined by the Directors.

Section 14.01 Protection

For the protection of Directors and Officers:

- a) No Director or Officer shall be liable for the acts, receipts, neglects or defaults of any other Director, Officer or employee or for any loss, damage or expense happening to the Club through the insufficiency or deficiency of title to any property acquired by order of the Board or for or on behalf of the Club or for the insufficiency or deficiency of any security in or upon which any of the moneys of or belonging to the Club shall be placed out or invested or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person, firm or company with whom or which any moneys, securities or effects shall be lodged or deposited or for any other loss, damage or misfortune whatever which may happen in the execution of the duties of such Director's or Officer's respective office or trust or in relation thereto, unless the same shall happen by or through such Director's or Officer's own wrongful and willful act or through his own wrongful and willful neglect or default.
- b) Directors and Officers shall not be liable to the Club for any costs, charges, expenses, loss or liability which the Club shall suffer or incur for, by reason of, arising out of, or in any way relating to any act, deed, matter or thing made, done or permitted to be done or omitted to be done by him in the performance of his duties and functions (or in the performance of what he honestly believed was in the proper performance of his duties and functions), provided he acted or made such omission honestly, in good faith and without fraud or fraudulent intent.

Section 14.02 Indemnity

Every Director or Officer of the Club, and his heirs, executors and administrators, and estate and effects, respectively, shall

from time to time and at all times, be indemnified and saved harmless out of the funds of the Club from and against:

- a) any and all costs, charges and expenses whatsoever which such Director or Officer sustains or incurs in or about any action, suit or proceeding that is brought, commenced or prosecuted against him, for or in respect of any act, deed, matter or thing whatsoever made, done or permitted by him, in or about the execution of the duties of his office; and
- b) any and all costs, charges and expenses that he sustains or incurs in or about or in relation to the affairs thereof, except such costs, charges or expenses as are occasioned by his own willful neglect or default.

Section 14.03 Insurance

The Board shall cause to be purchased such insurance as it considers advisable and necessary to ensure that Directors and Officers will be indemnified and saved harmless in accordance with this By-Law; the premiums for such insurance coverage shall be paid from the funds of the Club.

ARTICLE XV *Financial Matters*

Section 15.01 Authorized Signing Officers

Contracts, documents or other instruments in writing requiring the signature of the Club shall be signed by any two Officers and all contracts, documents, and instruments in writing so signed shall be binding upon the Club without any further authorization or formality. The Board shall have power from time to time by resolution to appoint an Officer or Officers on behalf of the corporation to sign specific contracts, documents and instruments in writing. Any financial obligation in excess of \$25,000 to be incurred by the Club shall require Board authorization.

Section 15.02 Banking and Borrowing

- a) Bank accounts of the Club shall be kept at such banks and in such places and shall be operated in such manner and by such person or persons as the Board shall from time to time determine by by-law.
- b) The Board may from time to time:
 - i) borrow money on the credit of the Club;
 - ii) issue, sell or pledge debt obligations (including bonds, debentures, debenture stock, notes or other like liabilities whether secured or unsecured) of the Club;
 - iii) charge, mortgage, hypothecate or pledge all or any currently owned or subsequently acquired real or personal, movable or immovable property of the Club, including book debts, rights, powers, franchises and undertakings, to secure any debt obligations or any money borrowed, or other debt or liability of the Corporation; and
 - iv) delegate the powers conferred on the Board under this paragraph to such Officer or Officers of the Club and to such extent and in such manner as the Directors shall determine.

Section 15.03 Investments

The Board may invest in any investments which are authorized by the Club's investment policy as determined by the Board from time to time.

Section 15.04 Trust Funds

- a) No benefit given in trust to or to the use of the Club for endowment purposes shall be hypothecated, transferred or assigned to obtain credit or to receive funds except as allowed by the *Trustee Act* (Ontario);
- b) The Secretary shall keep at the Registered Office of the Club copies of all testamentary documents and trust

instruments by which benefits are given, bequeathed or devised to, or to the use of, the Club;

- c) The Club shall apply any trust funds of the Club only to the designated purpose(s) for which such funds were intended. Under no circumstances shall the Club transfer any funds held in trust by the Club to any other individual or entity, unless such transfer complies with all applicable law, including without limitation, the *Charities Accounting Act* (Ontario) and the *Trustee Act* (Ontario); and
- d) The Treasurer shall at least semi-annually provide an accounting to the Board with respect to all funds held in trust by the Club.

